



## 1999 ANNUAL REPORT



**BROOKFIELD**

*Committed to Outstanding Service*

# C O R P O R A T E   P R O F I L E

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*Brookfield Properties Corporation owns and manages premier North American office properties, operates service businesses for real estate properties and develops master-planned residential communities. Brookfield's objective is to build shareholder value by owning high-quality assets and by managing each of its operations intensively to increase cashflows and net asset values.*

# C O N T E N T S

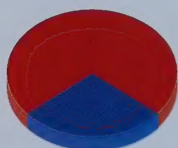
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# FINANCIAL HIGHLIGHTS

	1999		1998	
	<i>(Millions, except per share information)</i>			
	Cdn\$	Cdn\$	US\$	US\$
<b>Results of Operations</b>				
Revenues	\$ 2,721	\$ 2,363	\$ 1,826	\$ 1,593
Property net operating income	848	750	569	506
Cashflow from operations	386	290	259	197
Net income	228	189	153	129
<b>Financial Position</b>				
Total assets	\$ 11,712	\$ 11,711	\$ 8,134	\$ 7,658
Capital base	3,818	3,609	2,651	2,362
Fully diluted common shareholders' equity	2,506	2,364	1,741	1,545
<b>Per Fully Diluted Common Share</b>				
Cashflow from operations	\$ 2.25	\$ 1.68	\$ 1.51	\$ 1.13
Net income	\$ 1.26	\$ 1.04	\$ 0.85	\$ 0.70
Dividends	\$ 0.32	\$ 0.24	\$ 0.21	\$ 0.16
Book value	\$ 15.63	\$ 14.82	\$ 10.86	\$ 9.69
Closing market price	\$ 15.15	\$ 18.50	\$ 10.50	\$ 12.09

GEOGRAPHIC  
DISTRIBUTION  
OF ASSETS



*(Book value)*

United States	72%
Canada	28%

1999 QUARTERLY  
CASHFLOW FROM  
OPERATIONS

*(US\$ Millions)*



## OVERVIEW

The business fundamentals for our commercial property operations remained positive throughout 1999. With vacancy rates in most of our markets at their lowest levels in fifteen years, we were able to achieve higher rental rates, add substantial net asset value from new initiatives and increase cashflow from operations by more than 30% to US\$259 million, US\$1.51 per share or Cdn\$386 million, Cdn\$2.25 per share on a fully diluted basis.

Unfortunately, stock market prices for real estate companies in 1999 did not reflect these positive fundamentals. As a result, Brookfield's share price decreased 18%, generally in line with the real estate sector. This divergence of value amid some of the best conditions experienced by the real estate industry continues to perplex investors but presents opportunities for well capitalized real estate companies, such as Brookfield.

Occupancy in our portfolio of premier office properties remains at the high level of 96% achieved last year. This figure masks the amount of new leasing completed as a result of initiatives to re-acquire previously leased space. In New York, Boston and Toronto, 900,000 square feet of space was acquired from tenants prior to lease expiry. This space was re-leased at higher rates than were previously in place.

Overall, more than 3.4 million square feet of space was leased in the portfolio, including 1.2 million square feet of new occupancies, 1.3 million square feet of renewals and 0.9 million square feet of space acquired and re-leased during the year. The net increment received on space leased, over rental rates that were in place, was US\$2.35 per square foot. With average net rental rates in the overall portfolio still less than 70% of market rates, a continued increase in rental revenues is expected as space rolls over.

Further value was created by acquiring new properties, disposing of lesser quality assets, repurchasing equity and developing new income streams.

Net asset value per share was also increased through the repurchase of US\$62 million of shares of Brookfield and its subsidiaries at discounts to their underlying value. This included a repurchase of 5.8 million common shares of Brookfield's principal Canadian subsidiary, Gentra Inc., in 1999. This buyback enabled Brookfield to increase its net effective interest in its Canadian office portfolio

by approximately 1 million square feet. Subsequent to year end, a further 3.8 million shares of Gentra were acquired.

During 1999, Brookfield formed *e-ffinity Properties* and entered into a number of strategic alliances with other e-commerce partners which will expand the services provided to tenants in the areas of telecommunications, broadband internet, data and affinity programs. In keeping with our commitment to outstanding service to tenants, these initiatives will enable Brookfield's tenants to benefit from the most advanced telecommunications, internet and e-commerce technologies as they evolve in the coming years.

## FINANCIAL HIGHLIGHTS

Brookfield had its best operational and financial year in its history. The following results were achieved:

- Cashflow from operations for the fourth quarter was US\$83 million (US\$0.49 per share) or Cdn\$124 million (Cdn\$0.73 per share) including US\$18 million of lease termination income.
- Cashflow from operations for the full year in 1999 increased by 33% to US\$259 million (US\$1.51 per share) or Cdn\$386 million (\$2.25 per share).
- Net debt declined to 61% from 64% of total capitalization.
- Year end cash balances increased to US\$220 million.
- Under US financial reporting, which levelizes rents, the cashflow from operations per fully diluted share for 1999 increased by 30% to US\$1.61 per share.

Despite this, the price of the company's common shares ended the year at US\$10.50 or Cdn\$15.15. This was lower than our book value per share and approximately half of most analysts' net asset value estimates. Assuming we meet our targeted cashflow growth rate in 2000, the forward cashflow multiple is approximately six times.

These results, combined with the generation of cash from sales of properties and participating



**Senior members of Brookfield's US Commercial Property Team:**

Left to Right: Edward Beisner, Lawrence Graham, Bruce Flatt, John Zuccotti, Richard Clark, Kathleen Kane and Jeremiah Larkin.

interests, will ensure the company has the necessary financial resources to acquire its shares or additional shares of its affiliates at discounts to their underlying asset value, without weakening the company's financial ratios.

## COMMERCIAL PROPERTY OPERATIONS

Brookfield's operating strategies in 1999 were largely focused on maximizing returns from its existing office properties. Capital from North American pension funds as well as from offshore investors drove up premier office property prices. Although a number of investment opportunities were examined, we could not justify competing on price for the acquisition of these assets. The number and size of these transactions, however, demonstrated the depth of capital available and the premiums attributed to high-quality office assets.

### New York and Boston

New York, led by the financial services, telecommunications and entertainment industries, ended 1999 with the lowest unemployment rate and strongest economy in 20 years. This enabled rental rates in both midtown and downtown Manhattan to increase by more than 20%. Over 18 million square feet in midtown and 7 million square feet in downtown Manhattan were leased. Despite the lack of space available in the market and compared to a record 1998, virtually the same amount of space was leased in 1999 as in 1998.

New York has been identified by various investor surveys as the recommended location to invest in real

estate. Supply remains constrained as few quality development sites exist and long lead times are required. This imbalance looks like it will persist well beyond the year 2000. In the heart of all of this, Brookfield owns 10 million square feet of office properties and owns or controls development rights to build a further 6 million square feet. These are some of the very best properties and development sites in New York City.

Brookfield began the year with a 100% leased New York portfolio, and responded to the rising rental rates by re-acquiring over 750,000 square feet of space prior to its stated maturity. Most of this

## VACANCY RATES

### Premier Office Properties

	<b>December 1999</b>	December 1994
Midtown New York	<b>4%</b>	13%
Downtown New York	<b>6%</b>	17%
Toronto, Ontario	<b>5%</b>	14%
Boston, Massachusetts	<b>4%</b>	11%
Denver, Colorado	<b>5%</b>	14%
Minneapolis, Minnesota	<b>5%</b>	9%
Calgary, Alberta	<b>6%</b>	8%

space has been re-leased to Goldman Sachs, Deloitte & Touche and other major tenants. As a result, One Liberty Plaza, where most of the space was re-acquired, is expected very shortly to be 100% leased, and the one remaining block of 80,000 square feet at One World Financial Center is expected to be leased by the end of the second quarter of 2000.

These re-leasing efforts generated a gain of US\$18 million from termination fees net of costs in 1999, and looking forward, will increase Brookfield's rental revenues by over US\$6 million annually. These transactions will also improve the credit profile of the properties and extend the overall term of leases for financing purposes.

At 245 Park Avenue, the remaining vacant space was leased at gross rental rates exceeding US\$65 per square foot. With rental rates in midtown trending higher, we are completing the renovation of the lobby and newly created Lexington Avenue retail space in order to prepare the property for new tenants in 2003 when we expect to regain 750,000 square feet of space currently occupied by Bear Stearns.

In Battery Park City, the location of Brookfield's World Financial Center properties, over 6,000 apartment units, two hotels and a theatre-entertainment complex are under construction or were recently completed. Brookfield has rights over the development of the last two remaining office sites in Battery Park City encompassing 2.6 million square feet, including the largest immediately developable site in Manhattan. Discussions are continuing to integrate this office space with our interests in the World Financial Center complex.

Brookfield has also been working to acquire land to develop a premier office site in midtown Manhattan at 300 Madison Avenue. This land assembly, between 41st and 42nd Streets on Madison Avenue, is suitable for the development of an office property of over 1 million square feet.

In the Boston area, money management firms and technology companies continued to expand their office space needs. While some competitive office product is being constructed in the Back Bay and Fort Point Channel areas of Boston, there is no competitive office space close to being developed in downtown Boston. This led gross rental rates in this market to rise to over US\$60 per square foot in 1999, making Boston one of the strongest downtown office markets in North America.

Brookfield entered into two major leases in 1999, increasing the occupancies of its Boston properties to 95%. Wellington Management, among others, is expanding by 70,000 square feet at 75 State Street, and a new lease is expected to close shortly on the final 100,000 square feet at 53 State Street. Once completed, this will bring the occupancy levels to 100% at rental levels well above previous expectations.

The company's Boston properties have virtually no lease maturities for the next six years but will benefit from rental rate increases through escalation clauses in the leases.

Brookfield also expects to have a contract to sell a 49% interest in its two Boston properties in the first quarter of 2000. This transaction is expected to close in 2000 following a private placement with European investors.

### **Denver and Minneapolis**

In downtown Denver, the telecommunications industry continues to expand, leasing major blocks of space. This source of demand, and a strong Colorado economy, enabled Republic Plaza to achieve US\$20 net effective rents on two new lease transactions totalling 75,000 square feet.

With a substantial number of leases coming due over the next few years, higher rents than those currently in place should be achieved, adding significantly to the bottom line of our Denver operations.

In Minneapolis, the economy remained strong and unemployment hit its lowest level in decades. As a result, the large amount of new space coming onto the market is not expected to impact rental rates as much as previously believed.

Given the low average net rents on maturing leases in Brookfield's Minneapolis properties, increases in rental revenues over the next few difficult years are expected to be achieved, despite a rise in vacancy rates.

### **Toronto and Calgary**

In Toronto, the leasing market responded positively once the two proposed bank mergers were set aside. Later in the year, some uncertainty was created as three major office towers owned by the banks were placed on the market for sale. Pension funds acquired these properties at much higher price levels than Brookfield could justify and still achieve its return targets. These sales demonstrate the additional value attributed by sophisticated investors to premier office properties and underscore the value of Brookfield's high-quality assets.

The outlook for the downtown Toronto office leasing market for premier space remained positive in 1999, although not quite as strong as in 1998. Brookfield negotiated a relocation of the CIT Group from BCE Place to 140,000 square feet in our Queen's Quay property. Charles Schwab opened their new Canadian operations in 35,000 square feet in this property, clearly establishing Queen's Quay as a premier office location. Cisco Systems relocated their Toronto operations into 62,000 square feet of space at BCE Place. In addition, the retail areas of BCE Place were remerchandised and evening parking revenue increased substantially after the new Air Canada Sports Centre opened.

The Exchange Tower office complex in Toronto was refinanced without recourse for Cdn\$140 million, equivalent to the full purchase price of the property less than two years earlier. The renovated retail space was re-leased at rental rates of over Cdn\$100 per square foot. A long-term lease was also entered into with the Canadian Ministry of Justice for 104,000 square feet of space.

The Calgary market was impacted positively by oil prices which started 1999 at US\$12 per barrel and ended the year at more than double that level. This increase, along with continued strong natural gas prices and a more diversified economy, led to much stronger leasing results for our Calgary properties than expected.

At Petro-Canada Centre, a 120,000 square foot lease was signed with Precision Drilling and at Fifth Avenue Place, Renaissance Energy expanded their space by 70,000 square feet.

First Alberta Place, a non-core Calgary office property was sold, completing the disposition of our six smaller Calgary office properties.

#### **Other Commercial Property Operations**

Imperial Promenade, a suburban Orange County, California office property developed by Brookfield in 1990, was sold for US\$52 million to a pension fund. Four other smaller western Canadian and Toronto office properties were also sold as well as all of our Montreal retail properties. In total, these and other sales realized US\$113 million. US\$59 million of loans and other receivables were also collected as we continued to withdraw from the real estate lending business.

Major strides were taken to reposition a number of Toronto-area properties including a new 120,000 square foot office lease entered into with Royal Sun Alliance at the Sheridan Centre, as well as a new master redevelopment plan for Bramalea City Centre. In western Canada, Londonderry Centre in Edmonton and Sevenoaks Centre in suburban Vancouver are undergoing redevelopment and are expected to be substantially completed by the end of 2000.



**Senior members of Brookfield's Canadian Commercial Property Team:**

*Left to Right:* John Kennedy, Julian Aziz, Katherine Vyse, Kieran Mulroy, Karen Weaver, Brian Collyer, David Arthur, Gordon Arnell, Seamus Foran, Mauro Pambianchi, John Campbell and Steven Douglas.

## SERVICE BUSINESSES

*e-ffinity Properties* was established as a priority initiative in order to provide our tenants with continued superior levels of service. This company is developing business to business and business to consumer e-commerce services through an internet-enabled platform for customers of office and other properties. Brookfield transferred its facilities and residential management services businesses to this company in order to more closely co-ordinate the benefits from these operations. As part of this new initiative, *e-ffinity Properties* entered into a strategic alliance with Cypress Communications, Inc. of Atlanta in November 1999 in the United States, and started a new venture with Cypress in Canada. Further e-commerce investments and joint ventures are planned in the coming year.

Brookfield's Facilities Management Services continued to expand with two major new contracts encompassing over 15 million square feet with Nortel Networks and the Royal Bank of Canada. These major contracts clearly establish this business as the leading facilities management company in Canada. From a start up four years ago, these operations now manage over 50 million square feet of premises across Canada.

## MASTER-PLANNED COMMUNITIES

The year started with mortgage and unemployment rates in the US at their lowest levels since the 1960s. As a result, the US home ownership rate climbed to a record 66%. Although interest rates nudged upward in the second half of the year, employment levels and consumer confidence remained strong.

The housing markets were particularly buoyant where telecommunications and technology companies were important factors in the local economies. This led to strong housing demand in five of the company's markets: San Francisco Bay Area, Los Angeles Area, San Diego Area, Denver and northern Virginia. As a result, Brookfield enjoyed higher sales

### LOT AND HOME SALES

	Home Sales		Lot Sales	
	1999	1998	1999	1998
San Francisco Bay Area	<b>383</b>	310	<b>384</b>	315
Los Angeles Area	<b>324</b>	383	<b>324</b>	449
San Diego Area	<b>435</b>	528	<b>1,251</b>	568
Northern Virginia	<b>525</b>	490	<b>1,427</b>	763
North Miami	<b>38</b>	63	<b>65</b>	239
Denver	—	—	<b>39</b>	—
Toronto	<b>630</b>	364	<b>794</b>	541
Calgary	<b>274</b>	391	<b>935</b>	1,208
Edmonton	—	—	<b>344</b>	378
	<b>2,609</b>	2,529	<b>5,563</b>	4,461

volumes as well as improved profit margins. Following increases in 1998, house prices again rose in 1999 to their highest level in a decade.

Overall, Brookfield's land and housing operations exceeded their planned earnings and capital redeployment targets. The risk profile of the assets was also reduced. With a housing sales backlog of over 1,100 units, representing 40% of our expected 2000 deliveries, we are well positioned to achieve improved results in the current year. Net cashflow generated from the land and housing operations for reinvestment into other areas of the company's business is expected to exceed US\$175 million in 2000. This will occur despite a growth in business activity.

In Denver, the first 39 lots were sold at *Tallyn's Reach*, a new master-planned 2,000 unit community developed by Brookfield near the suburban Tech Center. In the East Bay area of San Francisco, *Windemere Ranch*, one of the last premier tracts of housing land, received final water district approvals and now has full entitlements. This 5,200 unit master-planned community, owned equally by Brookfield and two partners, has the potential to be a strong contributor for years to come. In San Diego, Brookfield participated in three joint venture acquisitions totalling 3,500 lots which provide an effective interest in 1,700 quality building lots for these housing operations. In Calgary and Toronto, Brookfield was named *Builder of the Year* by the local home builders' associations.

As cash continues to be recovered from this business, the return on net capital employed will increase significantly. The combination of higher returns and the re-investment of the capital withdrawn from this business will contribute to Brookfield's growth in 2000 and beyond.

## OUTLOOK

Given a strong economy and stock market outlook, Brookfield will continue to benefit from the healthy demand and restricted office supply, especially in its three major office markets: New York, Boston and Toronto. With the deployment of the cash resources



**Brookfield's Land and Housing Senior Management Team:**

Left to Right (Sitting): Ian Cockwell and Paul Kerrigan.


Left to Right (Standing): Peter Nesbitt, William Pringle and Alan Norris.

generated from operations and non-core asset sales, Brookfield will increase its underlying value and cashflows in 2000.

\* \* \* \* \*

Special thanks are once again due to our 2,500 colleagues who operate our buildings, service our tenants and build homes for our customers. We are *Committed to Outstanding Service* and appreciate the dedication of our colleagues to achieving this goal. We strive every day to understand the needs of our tenants and customers and search for ways to exceed their expectations. Working together, we are committed to maintaining Brookfield's pre-eminent position as an owner and provider of the highest quality office space and services in North America.

On behalf of the board,



Gordon E. Arnell

*Chairman*



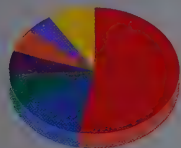
J. Bruce Flatt

*President and Chief Executive Officer*

February 7, 2000

# COMMERCIAL PROPERTIES

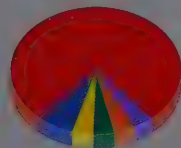
## DISTRIBUTION OF COMMERCIAL PROPERTIES — 1999



(By net operating income)

New York	53%
Toronto	13%
Boston	8%
Denver	6%
Calgary	6%
Minneapolis	5%
Other	9%

## LEASE MATURITIES



Current	4%
2000	4%
2001	4%
2002	4%
2003	7%
Beyond 2003	77%



GALLERIA AT 75 STATE STREET IN BOSTON, MASSACHUSETTS

## COMMERCIAL PROPERTIES BY REGION

	Occupancy	Rentable Area	Brookfield's Effective Interest
	%	000s of sq. ft.	000s of sq. ft.
New York	99	9,667	8,810
Toronto	96	9,284	7,300
Boston	95	2,122	2,122
Denver	97	3,147	2,941
Minneapolis	96	3,009	3,009
Calgary	94	5,379	4,406
Other	94	673	673
Total Portfolio	96	33,281	29,261
Less: Minority Interests			5,319
Brookfield's Net Effective Ownership Interest			23,942

# NEW YORK, NEW YORK

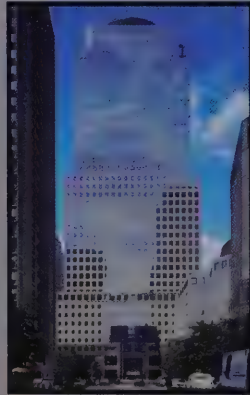
- Brookfield's New York portfolio consists of five major properties encompassing 10 million square feet of premier office space.
- Brookfield is one of the largest landlords in Manhattan and owns and manages over 15% of the Class A office space in downtown Manhattan.
- The centerpiece of the Manhattan portfolio is the 7.5 million square foot World Financial Center which ranks as one of the highest quality and most technologically advanced office property complexes in the world.
- The New York portfolio is 99% leased to high-credit quality tenants.



FOUR WORLD FINANCIAL CENTER



ONE WORLD  
FINANCIAL CENTER

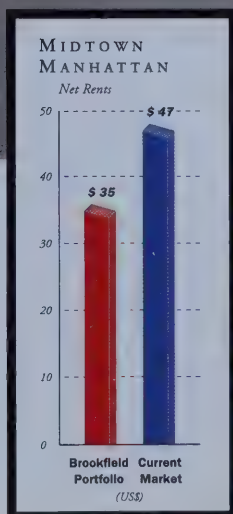


TWO WORLD  
FINANCIAL CENTER





245 PARK AVENUE, NEXT TO  
GRAND CENTRAL STATION



ONE LIBERTY PLAZA, ADJACENT TO THE  
WORLD TRADE CENTER

# TORONTO, ONTARIO

- Brookfield's Toronto portfolio consists of 17 properties encompassing over 9 million square feet of predominantly premier office space.
- Brookfield owns and manages 21% of the Class A office space in downtown Toronto.
- The flagship of the Toronto portfolio is BCE Place, which is regarded as the premier office property complex in Canada.
- The vacancy rate in Class A space is 5%, and rental rates in the portfolio are 75% of current market rental rates.



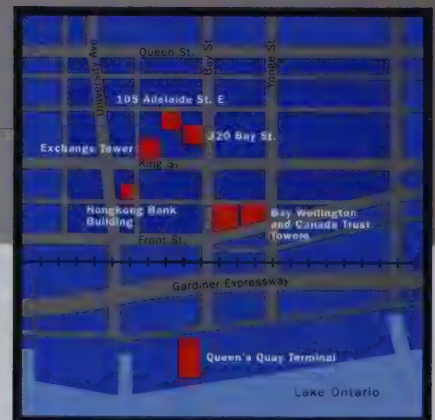
HONGKONG BANK  
BUILDING

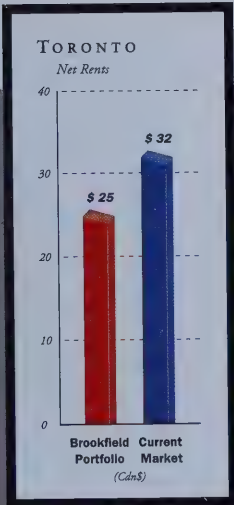


QUEEN'S QUAY TERMINAL,  
ON THE TORONTO  
WATERFRONT



EXCHANGE TOWER IN DOWNTOWN  
TORONTO





320 BAY STREET



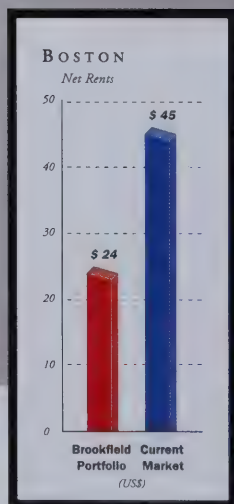
BCE PLACE  
CANADA TRUST TOWER, BAY WELLINGTON TOWER  
LAMBERT GALLERIA AND HERITAGE SQUARE

# BOSTON, MASSACHUSETTS

- Brookfield's Boston portfolio consists of two premier office properties totaling 2.1 million square feet and represents 7% of the downtown Class A office space.
- Brookfield owns 53 State Street and 75 State Street in the heart of Boston's financial district.
- Once leases in process are signed, the properties will be 100% occupied by high-quality tenants.
- Rental rates in the portfolio are approximately 50% of current market rental rates.
- With vacancies at historic lows of 4%, net rental rates in Boston now exceed \$45 per square foot.



53 STATE STREET



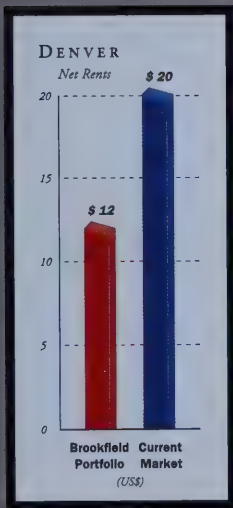
75 STATE STREET



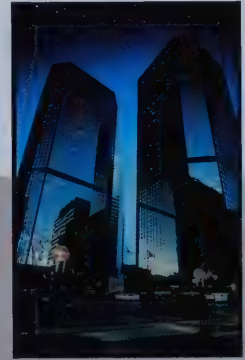
53 STATE STREET (LEFT) AND 75 STATE STREET (RIGHT)  
IN THE HEART OF BOSTON

# DENVER, COLORADO

- Brookfield's Denver portfolio consists of five office properties encompassing 3.1 million square feet of predominantly premier office space.
- Brookfield owns and manages 20% of the Class A office space in downtown Denver.
- The 1.8 million square foot Republic Plaza office property is the tallest and one of the highest quality office properties in Colorado.
- Vacancy rates have dropped to 5% in Class A space in Denver with net rental rates approximately 60% of current market rental rates.



REPUBLIC PLAZA, AT THE HEART OF  
DENVER'S FINANCIAL DISTRICT



WORLD TRADE  
CENTER I AND II



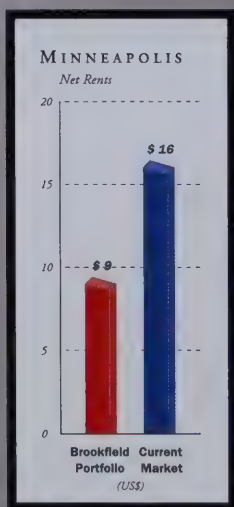
COLORADO STATE  
BANK BUILDING

# MINNEAPOLIS, MINNESOTA

- Brookfield's Minneapolis portfolio consists of three properties, encompassing 3 million square feet of premier office and urban retail space.
- Brookfield owns and manages 16% of the Class A office space in downtown Minneapolis.
- The vacancy rate in Class A space is 5% and rental rates in the portfolio are 55% of current market rental rates.
- Construction currently under way is likely to temper the growth in market rental rates over the next three years.



MINNEAPOLIS  
CITY CENTER



DAIN/GAVIIDAE CENTER, IN DOWNTOWN  
MINNEAPOLIS, MINNESOTA

# CALGARY, ALBERTA

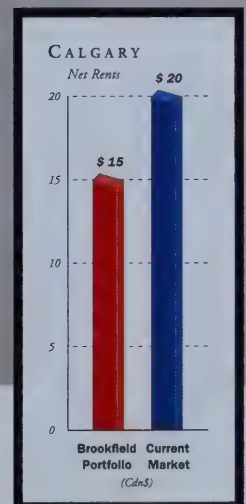
- Brookfield's Calgary portfolio consists of five office properties and four retail properties, encompassing 5.4 million square feet of primarily premier office space in downtown Calgary.
- Brookfield owns and manages 18% of the downtown Class A office space in Calgary.
- Since 1998, Brookfield has repositioned its Calgary operations through the sale of six non-core buildings and the acquisition of 50% of the 2 million square foot Petro-Canada Centre, the largest office property in western Canada.
- Total occupancy is 94%, and rental rates in the portfolio are 75% of current market rental rates.



FIFTH AVENUE PLACE



PETRO-CANADA CENTRE, ADJACENT TO  
FIFTH AVENUE PLACE



# SERVICE BUSINESSES

## *e-ffinity Properties*

In 1999, Brookfield created *e-ffinity Properties Inc.* with a goal of becoming the premier business to business and business to consumer internet-enabled platform for customers of office and other properties.

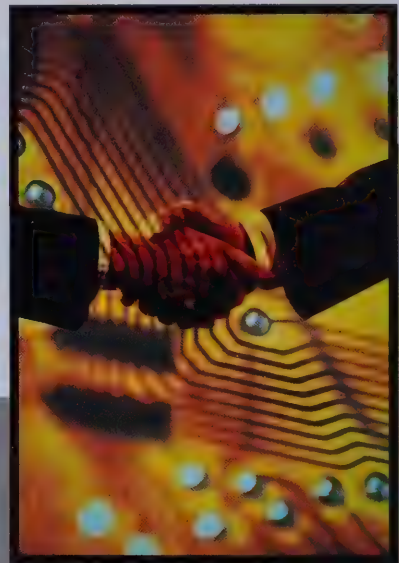
### 1999 MILESTONES

- Transferred facilities and residential management services to *e-ffinity Properties*.
- Entered telecom alliance and invested in Cypress Communications, Inc. of Atlanta, Georgia.
- Assisted in the formation of Cypress Communications Canada Inc. to become the first US-sponsored building-centric telecom provider in Canada.
- Launched *e-ffinity Communities* to install and service fibre-optic cable and other telecommunication requirements in residential subdivisions.
- Started *e-ffinityoffice.com*, a business to business web-enabled tenant services portal.

### 2000 OBJECTIVES

- Establish operations of the premier business to business and business to consumer internet platform for office and other properties.
- Continue to develop relationships with suppliers of services for tenants and selectively invest in those which are strategic to *e-ffinity Properties*.

STRATEGIC ASSETS	
500,000 high net worth customers located in Brookfield's office properties.	5,000 businesses in managed and owned assets.
60,000 customers in residential condominium management portfolio.	500,000 customers in residential subdivisions developed by Brookfield.



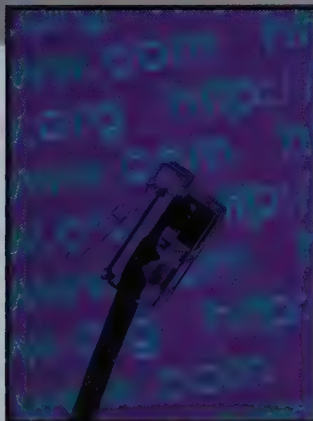
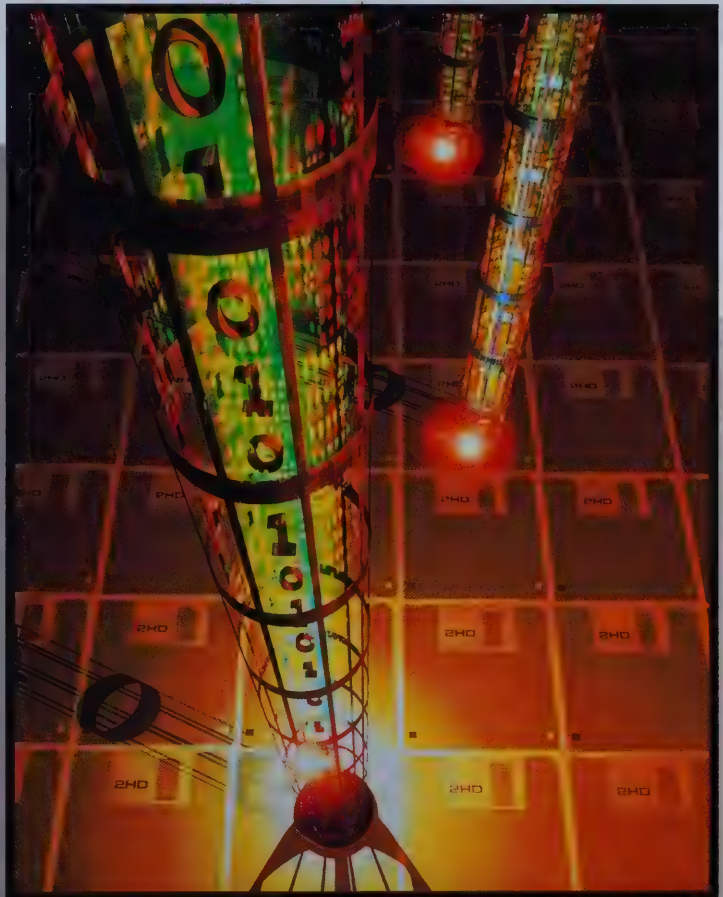
## 1999 FACILITIES MANAGEMENT ACCOMPLISHMENTS

- Added 15 million square feet of managed properties to the portfolio.
- New major clients include major contracts with Nortel Networks and the Royal Bank of Canada.

## SERVICES PROVIDED

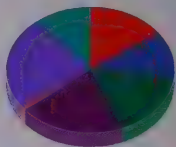
Service relationships are being established on a local and national basis to include:

- Broadcast information and content
- Telecommunications services
- Internet and data communications
- Application service software
- Information services
- Facilities management outsourcing
- Paper shredding
- Catering and other supplies
- Courier services
- Travel services
- Air, hotel and auto reservations
- Printing and copying
- Transportation logistics



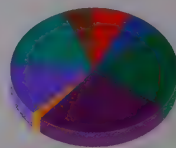
# MASTER-PLANNED COMMUNITIES

## HOME SALES



San Francisco Bay Area	15%
Los Angeles Area	12%
San Diego Area	17%
Northern Virginia	20%
North Miami	1%
Toronto	24%
Calgary	11%

## LOT SALES



San Francisco Bay Area	7%
Los Angeles Area	6%
San Diego Area	22%
Northern Virginia	26%
North Miami	1%
Denver	1%
Toronto	14%
Calgary	17%
Edmonton	6%



STRADA AT NEWPORT COAST, IN NEWPORT BEACH, CALIFORNIA

## RESIDENTIAL BUILDING LOTS

	Residential Building Lots			Total Lots
	Home Building	Land Under Development	Land For Development	
San Francisco Bay Area	1,164	1,912	—	3,076
Los Angeles Area	649	130	222	1,001
San Diego Area	1,069	855	3,042	4,966
Northern Virginia	1,616	1,942	126	3,684
North Miami	954	168	—	1,122
Denver	—	2,042	—	2,042
Toronto	757	1,285	3,257	5,299
Calgary	171	1,049	30,172	31,392
Edmonton	—	525	9,574	10,099
Total Lots	6,380	9,908	46,393	62,681
Less: Unentitled Lots	—	—	26,525	26,525
Total Entitled Lots	6,380	9,908	19,868	36,156



MCKENZIE TOWNE, AN 8,000 LOT MASTER-PLANNED  
BROOKFIELD RESIDENTIAL COMMUNITY IN  
CALGARY, ALBERTA



GREAT FALLS WOODS,  
A 48 LOT COMMUNITY IN  
FAIRFAX COUNTY, VIRGINIA



TALLYN'S REACH, A 2,000 LOT  
MASTER-PLANNED BROOKFIELD  
COMMUNITY IN DENVER, COLORADO



BROOKFIELD'S LAND AND HOUSING  
TEAM AT TESORO IN ORANGE  
COUNTY, CALIFORNIA



BROOKFIELD HOMES AT ANGUS GLEN IN TORONTO, ONTARIO

# COMMERCIAL PROPERTIES BY REGION

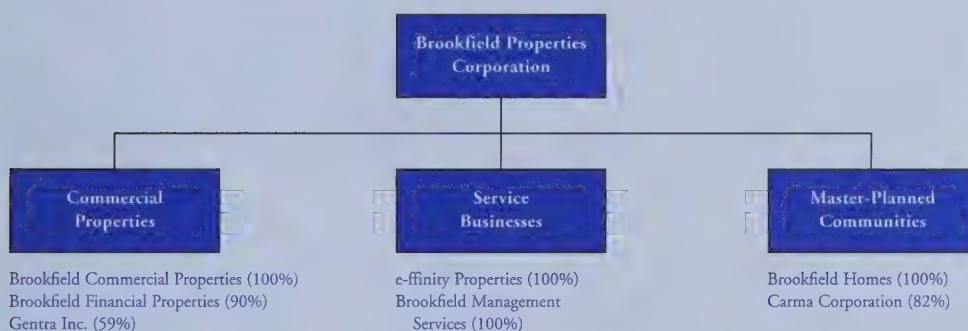
	Number of Properties	Occupancy	Office	Retail/ Other†	Rentable Area	Effective Ownership Interest	Brookfield's Effective Interest
		%	000s of sq. ft.	000s of sq. ft.	000s of sq. ft.	%	000s of sq. ft.
<b>NEW YORK</b>							
World Financial Center							
Tower One	1	95	1,461	50	1,511	100*	1,511
Tower Two	1	100	2,455	35	2,490	100*	2,490
Tower Four	1	100	1,711	37	1,748	51*	891
Retail and Winter Garden		78	—	177	177	100*	177
One Liberty Plaza	1	100	2,055	68	2,123	100*	2,123
245 Park Avenue	1	99	1,560	58	1,618	100*	1,618
	5	99	9,242	425	9,667		8,810
<b>TORONTO</b>							
BCE Place							
Canada Trust Tower	1	97	1,127	—	1,127	40	451
Bay Wellington Tower	1	97	1,244	—	1,244	100	1,244
Retail, Parking & 22 Front	2	99	191	807	998	74*	742
Exchange Tower Block	3	97	1,413	264	1,677	94*	1,573
Hongkong Bank Building	1	98	188	36	224	100*	224
Queen's Quay Terminal	1	89	368	83	451	100*	451
Bramalea City Centre	1	86	76	1,095	1,171	100*	1,171
Other	7	94	1,181	1,211	2,392	60*	1,444
	17	96	5,788	3,496	9,284		7,300
<b>BOSTON</b>							
53 State Street	1	90	1,090	30	1,120	100*	1,120
75 State Street	1	100	742	260	1,002	100*	1,002
	2	95	1,832	290	2,122		2,122
<b>DENVER</b>							
Republic Plaza	1	100	1,239	548	1,787	100	1,787
World Trade Center	2	96	764	43	807	100	807
Colorado State Bank Building	1	85	412	—	412	50	206
Highland Place	1	99	141	—	141	100	141
	5	97	2,556	591	3,147		2,941
<b>MINNEAPOLIS</b>							
Minneapolis City Center	1	94	1,082	695	1,777	100	1,777
Dain/Gaviidae Center	2	99	593	639	1,232	100	1,232
	3	96	1,675	1,334	3,009		3,009
<b>CALGARY</b>							
Fifth Avenue Place	2	100	1,436	247	1,683	100*	1,683
Petro-Canada Centre	2	97	1,702	244	1,946	50*	973
Londonderry Centre	1	81	—	769	769	100*	769
Other	4	90	121	860	981	100	981
	9	94	3,259	2,120	5,379		4,406
<b>OTHER</b>							
Chicago Place	1	100	—	311	311	100	311
Other	4	90	199	163	362	100	362
	5	94	199	474	673		673
Total Portfolio	46	96	24,551	8,730	33,281		29,261
*Less: Minority Shareholders' Interests							5,319
Brookfield's Net Effective Ownership Interest							23,942

† Includes parking facilities in mixed-use centres of 2,628,000 square feet.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

Brookfield is a publicly-traded North American real estate company listed on both the New York and Toronto stock exchanges under the symbol BPO. At December 31, 1999, Brookfield's asset base stood at US\$8.1 billion, generating US\$1.8 billion in revenue in 1999. Brookfield owns and manages a portfolio of premier North American office properties, operates service businesses for real estate properties, and develops master-planned residential communities. Brookfield's objective is to build shareholder value by owning and acquiring quality assets and managing each of its operations to increase cashflows from operations and shareholder values.



## Commercial Properties

Brookfield's strategy is to own premier office properties in prime downtown locations of selected cities in North America. Brookfield's portfolio consists of equity interests in 46 commercial properties, predominantly office buildings, containing 33 million square feet of rentable area in which Brookfield and its subsidiaries have an ownership interest in 29 million square feet. Of this portfolio, 21 premier properties located in the downtown core of six office markets represent 80% of the total square footage and book value of Brookfield's portfolio. Brookfield's focus is on actively managing its lease portfolio and pursuing value creation initiatives in order to enhance cashflows and reduce risk. Value is also created through share repurchases and the sale of participating interests to financial partners and redeploying the capital generated at higher yields in new properties which need to be upgraded or re-leased to higher quality tenants.

## Service Businesses

Brookfield owns 100% of *e-ffinity Properties* which has the goal of becoming the leading business to business and business to consumer, internet-enabled provider of services for customers of office and other properties. *e-ffinity Properties*' strategic advantage is that it has access to over 500,000 customers and 5,000 businesses in Brookfield's owned and managed office properties, over 60,000 customers in Brookfield's condominium management portfolio and 500,000 customers in Brookfield's residential subdivisions. In order to benefit from synergies, all of Brookfield's service businesses including its facilities management, residential management and telecom investments and initiatives, were consolidated into *e-ffinity Properties* in 1999.

## Master-Planned Communities

Brookfield owns over 63,000 planned residential building lots for use in its home building operations and for sale to other home builders. 36,000 lots are currently entitled for building and 27,000 lots are contained largely in later phases of master-planned communities which will be entitled as the earlier stages are sold and water, sewage, and other services are installed.

## ASSETS

Total assets were US\$8.1 billion at December 31, 1999 compared to US\$7.7 billion at December 31, 1998. The book value of the company's assets segmented by area of operation is as follows:

Years ended December 31 (Millions)	Book Value			Book Value		
	1999	1998	%	1999	1998	%
	Cdn\$	Cdn\$		US\$	US\$	
<b>Operating assets</b>						
Commercial properties	\$ 8,556	\$ 9,026	86%	\$ 5,942	\$ 5,899	86%
Residential home building	806	843	8%	560	551	8%
Development land	622	653	6%	432	427	6%
	9,984	10,522	100%	6,934	6,877	100%
<b>Other assets</b>						
Receivables and other	965	984		670	647	
Future income tax assets	446	—		310	—	
Cash and cash equivalents	317	205		220	134	
	\$ 11,712	\$ 11,711		\$ 8,134	\$ 7,658	

On a book value basis, commercial properties represent 86% of the company's operating assets. The commercial property portfolio is substantially weighted to premier downtown office properties in six North American cities. Residential home building assets represent 8% of Brookfield's assets and development land accounts for the balance of 6% of operating assets. Brookfield continued to advance its long-term land holdings through the development cycle in 1999. As a result, long-term land holdings will decline as these assets are developed and capital is recovered. The receivables and other assets are predominantly loans to third-party commercial real estate borrowers. The loans are of a short-term nature and will be liquidated over the next 12 to 18 months as the company completes its withdrawal from this business. The company's tax losses were recorded as an asset in 1999 in accordance with recent accounting pronouncements.

## COMMERCIAL PROPERTY PORTFOLIO

On a book value basis, 76% of Brookfield's commercial properties are located in the United States and 24% in Canada. Rental revenue and net operating income from US-based properties comprised 74% of revenue and 77% of net operating income respectively, with the balance from Canadian operations.

The consolidated carrying value of Brookfield's interest in 29.3 million square feet of rentable area is approximately US\$203 per square foot, while the cost to replace the portfolio is estimated at over US\$300 per square foot. The average size of Brookfield's major properties is 1.4 million square feet of rentable area.

The carrying value of Brookfield's commercial properties remained unchanged from 1998 at US\$5.9 billion after taking into account acquisitions and disposals of commercial property interests.

The following table provides a summary of Brookfield's commercial property portfolio by region:

	Total Net Rentable Area	Brookfield Interest	Dec. 31 1999	Dec. 31 1998	Dec. 31 1999	Dec. 31 1998
	<i>000s of sq. ft.</i>	<i>000s of sq. ft.</i>	<i>Cdn\$ Millions</i>	<i>Cdn\$ Millions</i>	<i>US\$ Millions</i>	<i>US\$ Millions</i>
New York, New York	9,667	8,810	\$ 4,388	\$ 4,578	\$ 3,047	\$ 2,992
Toronto, Ontario	9,284	7,300	1,467	1,504	1,019	983
Boston, Massachusetts	2,122	2,122	925	996	643	650
Denver, Colorado	3,147	2,941	524	560	364	366
Minneapolis, Minnesota	3,009	3,009	569	602	395	394
Calgary, Alberta	5,379	4,406	575	565	399	370
Other	673	673	108	221	75	144
Total	33,281	29,261	\$ 8,556	\$ 9,026	\$ 5,942	\$ 5,899

Occupancy levels remained at 96%, unchanged from 1998 levels. Over 3.4 million square feet of space was leased in 1999 including 1.2 million square feet of new occupancies, 1.3 million square feet of renewals, and 0.9 million square feet of space acquired and re-leased during the year. Portfolio occupancy rates by market remained largely consistent with 1998 as follows:

	Dec. 31, 1999		Dec. 31, 1998	
	Total Square Feet	% Leased	Total Square Feet	% Leased
<i>(Thousands of square feet)</i>				
New York, New York	9,667	99%	9,667	98%
Toronto, Ontario	9,284	96%	9,523	94%
Boston, Massachusetts	2,122	95%	2,122	99%
Denver, Colorado	3,147	97%	3,128	94%
Minneapolis, Minnesota	3,009	96%	3,009	93%
Calgary, Alberta	5,379	94%	5,528	94%
Other	673	94%	1,458	96%
Total	33,281	96%	34,435	96%

At December 31, 1999, average in-place net rents throughout the portfolio increased to US\$19 per square foot compared with US\$17.50 per square foot at December 31, 1998. This increase was largely a result of the expiry of 3.4 million square feet of space at an average net rate of US\$13 per square foot, and the subsequent re-leasing of this space at higher rates. After re-leasing this space, and taking into account contractual increases in rent during 1999 on other leases, the following table shows the average in-place rents and current market rents for similar space and services in each of the company's markets:

	GLA	Currency	Average Lease Term	Avg. In-Place Net Rent Dec. 31, 1999	Avg. Market Net Rent Dec. 31, 1999
	<i>sq. ft. 000's</i>		<i>Years</i>	<i>per sq. ft.</i>	<i>per sq. ft.</i>
New York, New York					
Midtown	1,618	US\$	7	\$ 35	\$ 47
Downtown	8,049	US\$	11	30	38
Toronto, Ontario	9,284	Cdn\$	8	25	32
Boston, Massachusetts	2,122	US\$	7	24	45
Denver, Colorado	3,147	US\$	5	12	20
Minneapolis, Minnesota	3,009	US\$	7	9	16
Calgary, Alberta	5,379	Cdn\$	9	15	20
Other	673	US\$	7	14	14
Total	33,281	US\$	8	\$ 19	\$ 27

An important characteristic of Brookfield's portfolio is the credit quality of its tenants. Special focus is directed at credit quality in order to ensure the long-term sustainability of rental revenues. The following list shows the largest tenants in Brookfield's portfolio and each of their lease commitments:

Tenant	Primary Location	Year of Expiry	000's Sq. Ft.	% of Sq. Ft.
Merrill Lynch & Company	New York/Toronto	2013	4,509	13.5%
Canadian Imperial Bank of Commerce	New York/Toronto	2006	1,128	3.4%
Petro-Canada	Calgary	2013	843	2.5%
Bear Stearns and Company	New York	2003	756	2.3%
Dayton Hudson Corporation	Minneapolis	2013	629	1.9%
TransCanada Pipelines Ltd.	Calgary	2009	496	1.5%
Imperial Oil	Calgary	2011	476	1.4%
TD Canada Trust	Toronto	2005	361	1.1%
Goodwin Procter & Hoar	Boston	2006	360	1.1%
Renaissance Energy	Calgary	2008	349	1.0%
Teacher Insurance Annuity Association	Denver	2008	323	0.9%
Cleary, Gottlieb, Steen & Hamilton	New York	2010	301	0.9%
Wellington Management	Boston	2011	283	0.9%
Sovereign Bank	Boston	2008	268	0.8%
Bank of Nova Scotia	New York/Toronto	2014	255	0.8%
			11,337	34.0%

The company signs long-term leases with rent escalation clauses to further reduce risk. Approximately 4% of the company's leases mature in each of the next four years. The combination of a long lease maturity profile with contractual rental rate increases should enable Brookfield to increase rents in its office portfolio by 10% measured at the operating income level over the next two years. The following is the breakdown of the lease maturities by market:

(Thousands of square feet)	Currently Available	2000	2001	2002	2003	2004 & Beyond	Total Leaseable Area
New York, New York	131	106	43	106	775	8,506	9,667
Toronto, Ontario	479	262	343	539	478	7,183	9,284
Boston, Massachusetts	115	46	61	—	26	1,874	2,122
Denver, Colorado	104	250	279	179	353	1,982	3,147
Minneapolis, Minnesota	125	137	89	358	410	1,890	3,009
Calgary, Alberta	311	230	447	251	253	3,887	5,379
Other	40	85	14	14	133	387	673
Total	1,305	1,116	1,276	1,447	2,428	25,709	33,281
Percentage of total	4%	4%	4%	4%	7%	77%	100%
Average expiring rent – US\$		\$ 13	\$ 13	\$ 16	\$ 16	\$ 19	\$ 19

Property owners typically grant financial concessions or capital to be invested in tenant installations in order to renew and attract new tenants to the company's properties. These concessions include providing tenants build-out allowances and paying leasing commissions to third-party brokers representing tenants. Expenditures for tenant installation were US\$48 million in 1999. This amount is greater than the US\$27 million expected on an ongoing basis, due to the lease-up of previously vacant space in 1999 and the costs involved in acquiring and re-leasing space prior to its expiry. It is expected that costs per square foot in the future will remain consistent with 1999 levels. Further details of the tenant installation costs incurred during the past two years are as follows:

<i>(Millions, except per square foot information)</i>	1999	1998
Square footage leased		
New space	2.1	1.2
Renewal space	1.3	0.6
	3.4	1.8
Tenant installation costs	US\$48	US\$30
Per square foot	US\$14	US\$17

Brookfield also invests capital for the ongoing capital maintenance of its properties. Due to the age, type of property and the advanced technological infrastructure in most of Brookfield's major properties, recurring capital maintenance expenditures are lower than industry norms. Capital maintenance expenditures in 1999 were US\$10 million. It is expected that annual capital maintenance expenditures on a levelized basis will be approximately US\$6 million.

## MASTER-PLANNED COMMUNITIES

Brookfield's land and housing operations are located in nine markets across North America. The aggregate book value of Brookfield's residential land under or held for future development is US\$432 million. Brookfield also has US\$560 million invested in active housing inventory for its home building businesses. This inventory consists of partially built homes and entitled building lots under sales contracts or held for sale in the near term. An analysis of the investment in residential land under or held for development by market is as follows:

<i>(US\$ Millions)</i>	Land Under Development	Land Held for Development	Total
San Francisco Bay Area, California	\$ 34	\$ —	\$ 34
Los Angeles Area, California	18	27	45
San Diego Area, California	13	48	61
Northern Virginia	30	3	33
North Miami, Florida	44	—	44
Denver, Colorado	28	—	28
Toronto, Ontario	25	12	37
Calgary, Alberta	62	46	108
Edmonton, Alberta	20	15	35
Other	4	3	7
Total	\$ 278	\$ 154	\$ 432

## RECEIVABLES AND OTHER

Receivables and other increased to US\$980 million in 1999, primarily due to recording the future value of the company's tax losses amounting to US\$310 million. New accounting regulations required Brookfield to capitalize these amounts on the company's balance sheet at December 31, 1999. Included in receivables and other is a portfolio of real estate related financial loans, which are predominantly secured by commercial real estate. During 1999, approximately US\$59 million of real estate loans were collected. The balance of the loans receivables are expected to be liquidated over the next 18 months. An analysis of these receivables and other is set out below:

(Millions)	1999	1998	1999	1998
	Cdn\$	Cdn\$	US\$	US\$
Mortgages receivable secured by:				
Office properties	\$ 69	\$ 92	\$ 48	\$ 61
Retail properties	37	96	26	63
Multi-family residential, hotel and other	74	90	51	60
Other real estate loans and receivables	372	266	258	174
Non-core real estate assets	230	158	160	104
Future income tax assets	446	—	310	—
Prepays and other assets	183	282	127	185
<b>Total</b>	<b>\$ 1,411</b>	<b>\$ 984</b>	<b>\$ 980</b>	<b>\$ 647</b>

## LIABILITIES AND EQUITY

Brookfield's US\$8.1 billion of assets held at December 31, 1999 were financed with property specific debt, minority shareholders' interests, convertible debentures and shareholders' equity. Brookfield's net consolidated debt to total consolidated book capitalization was 61% at December 31, 1999. The following table summarizes Brookfield's capital structure:

(Millions)	1999	1998	1999	1998
	Cdn\$	Cdn\$	US\$	US\$
Commercial property debt	\$ 6,467	\$ 6,466	\$ 4,491	\$ 4,226
Residential construction financing and advances	1,046	1,252	726	819
	7,513	7,718	5,217	5,045
Accounts payable	381	384	266	251
Capital base				
Minority shareholders' interests	1,018	922	707	603
Shareholders' equity and convertible debentures	2,800	2,687	1,944	1,759
<b>Total</b>	<b>\$ 11,712</b>	<b>\$ 11,711</b>	<b>\$ 8,134</b>	<b>\$ 7,658</b>

## Commercial Property Debt

Total commercial property debt was US\$4.5 billion at December 31, 1999 compared to US\$4.2 billion at the end of 1998. The commercial property debt at December 31, 1999 had an average interest rate of 7.3% and an average term of 12 years. Virtually all of the company's commercial property debt has recourse

only to specific properties with fixed-rate financing features, thereby reducing the overall financial risk to the company. Commercial property debt maturities for the next five years are as follows:

(US\$ Millions)	Scheduled			Weighted Average
Year	Amortizations	Maturities	Total	Interest Rate At Dec. 31, 1999
2000	\$ 70	\$ 74	\$ 144	7.6%
2001	91	11	102	7.4%
2002	79	21	100	7.4%
2003	90	560	650	7.5%
2004	110	—	110	7.0%
2005 and thereafter	—	3,385	3,385	7.3%
	\$ 440	\$ 4,051	\$ 4,491	7.3%

The largest property mortgages in order of maturity are as follows:

Commercial Property	Location	Interest Rate	Maturity Date	Brookfield Proportionate Mortgage Share	Mortgage Details
		%		US\$ Millions	
Chicago Place	Chicago	6.88	2000	\$ 30	Recourse, floating rate
One World Financial Center	New York	7.51	2003	414	Non-recourse, fixed rate
Fifth Avenue Place	Calgary	9.04	2003	63	Non-recourse, fixed rate
320 Bay Street	Toronto	6.82	2005	21	Non-recourse, fixed rate
245 Park Avenue	New York	8.34	2006	285	Non-recourse, fixed rate
Republic Plaza	Denver	9.00	2006	188	Non-recourse, fixed rate
Canada Trust Tower	Toronto	7.07	2007	79	Non-recourse, fixed rate
World Trade Center	Denver	7.00	2007	39	Non-recourse, fixed rate
Bramalea City Centre	Toronto	11.13	2008	22	Non-recourse, fixed rate
Petro-Canada Centre	Calgary	6.66	2008	75	Non-recourse, fixed rate
Exchange Tower	Toronto	6.83	2012	97	Non-recourse, fixed rate
Bay Wellington Tower	Toronto	6.40	2013	208	Non-recourse, fixed rate
Two World Financial Center	New York	6.91	2013	872	Non-recourse, fixed rate
Four World Financial Center	New York	6.95	2013	434	Non-recourse, fixed rate
53 State Street	Boston	6.91	2023	161	Non-recourse, fixed rate
Minneapolis City Center	Minneapolis	6.84	2027	131	Non-recourse, fixed rate
Dain Bosworth	Minneapolis	7.45	2027	82	Non-recourse, fixed rate
One Liberty Plaza	New York	6.90	2027	269	Non-recourse, fixed rate
75 State Street	Boston	7.00	2028	183	Non-recourse, fixed rate
Other property mortgages				838	Various terms
Total commercial property mortgages				\$ 4,491	

Total commercial property debt increased by US\$265 million compared to 1998 levels. The impact of a strengthening Canadian dollar, combined with US\$192 million of new debt resulting from property acquisitions and refinancings, were offset by contractual amortization payments of US\$120 million of debt during 1999 and repayments of US\$24 million on the disposition of non-core properties.

### Residential Construction Financing and Advances

Residential construction financing relates to construction and development loans which are repaid from the sales proceeds from building lots and homes. As new homes are constructed, loans are drawn down on a rolling basis. Total residential housing debt at December 31, 1999 was US\$451 million compared with US\$408 million in 1998. This financing carried an average interest rate of 8.6%.

Other advances declined to US\$275 million at December 31, 1999, as cash recovered from non-core assets was utilized to reduce these balances. Shareholder advances of US\$156 million bear interest at floating rates and are drawn under a five-year termable revolving facility. US\$150 million is convertible at either party's option into a fixed-rate financing at 9.75% repayable in 2015. The balance of US\$119 million is expected to be repaid from proceeds generated from the sale of long-term residential land holdings.

### Minority Shareholders' Interests

Minority shareholders' interests provide Brookfield with an additional source of long-term capital due to the perpetual nature of this capital. Minority shareholders' interests represent the portion of the equity of consolidated subsidiaries not owned by Brookfield. The following table details the components of these interests as at December 31, 1999 and 1998:

(Millions)	1999	1998	1999	1998
	Cdn\$	Cdn\$	US\$	US\$
Participation by minority shareholders in the common equity of subsidiaries				
Gentra Inc.	\$ 328	\$ 233	\$ 228	\$ 153
Brookfield Financial Properties	135	136	94	89
Carma Corporation	16	14	11	9
	479	383	333	251
Perpetual preferred shares of subsidiaries owned by other shareholders				
Gentra Inc.	382	382	265	249
Carma Limited	102	102	71	67
Brookfield Homes Ltd.	55	55	38	36
	\$ 539	539	374	352
Total	\$ 1,018	\$ 922	\$ 707	\$ 603

Minority interests increased by US\$104 million during 1999 due largely to the increase in the equity base of Gentra Inc. from retained income and future income tax benefits. This amount was partially offset by common share repurchases undertaken by Gentra totalling US\$58 million.

### Capital Base

Shareholders' equity and convertible equity debentures totalled US\$1.9 billion at December 31, 1999 compared with US\$1.8 billion at December 31, 1998. The increase was largely due to income retained in excess of dividends paid.

Shareholders' equity includes US\$254 million of perpetual preferred shares. US\$156 million of these shares have exchange features which permit their holders to tender them as currency in subscribing for common shares under any share offerings completed by the company. Shareholders' equity also includes subordinated convertible debentures of US\$258 million. The subordinated convertible debentures are convertible into 22.6 million common shares at an average price of US\$11.42 per share.

The company has 132.7 million issued and outstanding common shares. On a fully diluted basis, the company has 160.3 million common shares outstanding calculated as follows:

	Expiry Date	Exercise Price	1999	1998
		US\$		
Common shares outstanding			132,692,936	133,071,717
Add:				
Unexercised options	2001–2010	\$ 9.05	2,093,900	1,758,700
Convertible debentures	February 2007	10.42	19,997,948	19,998,067
Convertible debentures	June 2008	19.07	2,622,100	2,622,100
Warrants	May 2003	10.42	2,900,000	2,900,000
Common shares outstanding – fully diluted			160,306,884	160,350,584

The fully-diluted book value per common share at December 31, 1999 was US\$10.86 compared with US\$9.69 at December 31, 1998. The market capitalization of Brookfield's equity base, including convertible debentures, was US\$1.9 billion at December 31, 1999.

On June 2, 1999, Brookfield's common shares commenced trading on the New York Stock Exchange and changed its symbol to "BPO" on both the New York and Toronto stock exchanges. In August 1999, Brookfield instituted a normal course issuer bid whereby the company announced its intention to acquire up to 5% of the common shares of Brookfield in the 12 months subsequent to August 1999. During 1999, Brookfield acquired 389,200 of its own common shares at an average price of US\$10.46. These purchases, which cost US\$4.1 million, have been deducted from common shareholders' equity. A further 280,000 common shares were acquired subsequent to December 31, 1999.

## RESULTS OF OPERATIONS

Cashflow from operations increased to US\$259 million in 1999 compared with US\$197 million in 1998. Net income was US\$153 million, an increase of 19% over US\$129 million in 1998. A summary of the principal components of the company's operating results is as follows:

(Millions)	1999	1998	1999	1998
	Cdn\$	Cdn\$	US\$	US\$
<b>Commercial Property Operations</b>				
Rental revenues	\$ 1,386	\$ 1,261	\$ 930	\$ 850
Expenses	538	511	361	344
	848	750	569	506
<b>Land and Housing</b>				
Home and lot sales	1,258	1,010	844	681
Expenses	1,164	930	781	627
	94	80	63	54
<b>Other</b>	77	92	52	62
<b>Operating Income</b>	1,019	922	684	622
<b>Unallocated Interest Expense, Administration and Minority Interests</b>	633	632	425	425
<b>Cashflow From Operations</b>	386	290	259	197
Depreciation and amortization	83	73	56	49
Taxes and other provisions	75	28	50	19
<b>Net Income</b>	\$ 228	\$ 189	\$ 153	\$ 129

### Commercial Property Operations

Commercial property rental revenues increased US\$80 million to US\$930 million, an increase of 10% over 1998 levels. Commercial property net operating income increased to US\$569 million, an increase of 13% over 1998. The increase was derived 25% from contractual increases in rents, 17% from new and renewal leasing, 30% from lease termination fees and the balance from the inclusion for the full year of acquisitions completed in 1998.

During 1999, Brookfield's average net rent per square foot on in-place leases increased to US\$19, driven by higher leasing rates realized and the impact of contractual rent escalations on in-place leases. This is an increase of US\$1.50 per square foot over the average rate in place during 1998. This compares to an average current market rental rate of US\$27 per square foot in Brookfield's principal markets for similar space.

### Master-Planned Communities

Land and housing revenues increased 24% to US\$844 million, with net operating income increasing 17% to US\$63 million for the year ended December 31, 1999. Total lot sales for 1999, including lots sold to other builders, were 5,563 units compared with 4,461 units in 1998. Total revenue from lot sales was US\$127 million for the year ended December 31, 1999, an increase of 35% over 1998 lot sales of US\$94 million. Total home sales were 2,609 for the year compared with 2,529 in 1998.

The breakdown of the lot and home sales by region is as follows:

(Units)	Home Sales		Lot Sales	
	1999	1998	1999	1998
San Francisco Bay Area, California	383	310	384	315
Los Angeles Area, California	324	383	324	449
San Diego Area, California	435	528	1,251	568
Northern Virginia	525	490	1,427	763
North Miami, Florida	38	63	65	239
Denver, Colorado	—	—	39	—
Toronto, Ontario	630	364	794	541
Calgary, Alberta	274	391	935	1,208
Edmonton, Alberta	—	—	344	378
	2,609	2,529	5,563	4,461

In the United States, where 80% of Brookfield's residential activities are conducted, total lot sales increased to 3,490 lots and contributed US\$45 million of operating income, an increase of 49% over 1998. The operating income should continue to increase as new projects come on stream in 2000.

The company's Canadian operations sold 2,073 lots and 904 homes during 1999. These operations contributed US\$18 million of operating income, largely from the Calgary and Edmonton land holdings.

Brookfield's home building operations realized average home prices in 1999 of US\$275,000 per unit, an increase of 19% over 1998 levels. The continued strength of the North American economy and consumer confidence fueled demand in most of Brookfield's markets.

The following is a breakdown of average prices realized on home sales in 1999:

(US\$)	1999			1998		
	# of		Average	# of		Average
	Units	Sales	Price	Units	Sales	Price
		<i>Millions</i>	<i>Thousands</i>		<i>Millions</i>	<i>Thousands</i>
San Francisco Bay Area,						
California	383	\$ 145	\$ 378	310	\$ 117	\$ 376
Los Angeles Area, California	324	150	463	383	125	326
San Diego Area, California	435	160	368	528	141	268
Northern Virginia	525	126	240	490	94	193
North Miami, Florida	38	15	394	63	20	321
Toronto, Ontario	630	92	146	364	50	137
Calgary, Alberta	274	29	106	391	40	102
Total	2,609	\$ 717	\$ 275	2,529	\$ 587	\$ 232

Total orders for homes climbed to 2,773 units, an increase of 7% over 1998 levels, resulting in a backlog of orders at December 31, 1999 of 1,100 units, compared to 878 units at December 31, 1998. This represents 40% of expected closings in 2000.

### Interest and Other Income

Interest and other income includes interest charged on loans receivable, interest received on cash balances and transactional gains and losses realized on the disposal of non-core properties. Interest and other income declined over 1998 levels by US\$10 million due to a reduction in the company's real estate lending portfolio.

### Interest Expense

Interest expense increased 7% to US\$309 million in 1999. This increase is largely as a result of interest expense on US\$192 million of property debt related to property refinancing and acquisitions in the fourth quarter of 1998 and early 1999. The increased interest expense on this debt was offset by US\$120 million of scheduled amortizations of commercial property debt and the repayment of US\$24 million of debt related to non-core properties sold during the year.

### Administrative and Development

Administrative costs declined by US\$9 million over 1998 levels due to increased absorption of land and housing overheads into the cost of sales, and due to a reduction in operational overheads in the commercial property group. It is expected that these costs will continue to decline over the next two years as operations in both the United States and Canada are rationalized and additional efficiencies are achieved.

### Minority Interest Expense

Brookfield's minority interest expense is comprised of dividends paid on preferred shares of subsidiaries of the company and earnings attributable to the common shareholdings of Gentra Inc., Carma Corporation and Brookfield Financial Properties which are not owned by Brookfield.

During 1999, Brookfield continued its strategy of increasing its ownership of its operating subsidiaries: Carma by 2%, and Gentra by 7%. The following is the breakdown of the earnings and dividends attributable to other shareholders of the company's subsidiaries:

(Millions)	Type	1999	1998	1999	1998
		<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>	<i>US\$</i>
Gentra Inc.	Common shares	\$ 38	\$ 42	\$ 26	\$ 28
Gentra Inc.	Preferred shares	18	20	12	13
Brookfield Financial Properties	Common shares	20	28	13	19
Carma Corporation	Common shares	6	7	4	5
Brookfield Homes Ltd.	Preferred shares	6	6	4	4
Carma Limited	Preferred shares	5	6	3	4
Total		\$ 93	\$ 109	\$ 62	\$ 73

## CASHFLOW ANALYSIS AND FINANCIAL LIQUIDITY

Brookfield's operating cashflow before the payment of dividends, capital investments, tenant inducements and debt repayments was US\$259 million, an increase of US\$62 million over 1998 levels. In addition to operating cashflows, Brookfield has US\$220 million of cash and approximately US\$350 million in non-core assets which are planned to be sold over the next three years. These assets are comprised of excess residential land holdings, non-core commercial properties and loans receivable.

Brookfield's financial commitments are represented by interest expense and scheduled principal payments on its debt facilities, dividends on its preferred shares, interest payable on its subordinated convertible debentures and capital investments in its commercial properties to maintain the physical attributes of these assets. At December 31, 1999, most of these commitments, with the exception of preferred share dividends and convertible debenture interest, had recourse only to specific commercial property assets. Sufficient cashflows are generated by each of Brookfield's buildings to service their respective obligations. Sufficient additional earnings are available to cover dividends and interest payable on the company's preferred shares and convertible debentures.

Brookfield generates sufficient cashflow from its operations and other capital resources to satisfy its obligations in the normal course on an ongoing basis without the need to dispose of core-assets which may impair the long-term viability of the company.

## REAL ESTATE INDUSTRY AND RISKS

Commercial property rental rate increases have been fuelled by sustained economic growth during the past five years, combined with a lack of new supply of leasable commercial space. National vacancy rates for most Class A downtown office space in both Canada and the United States are at their lowest levels in the past two decades. As a result of constrained capital markets, most potential major property developments remain in the pre-development stage.

Management expects the company's financial performance in 2000 to exceed 1999. Through further management initiatives, Brookfield expects to increase the stability of its income and plans to exceed industry growth rates.

While the outlook for the real estate industry is positive, there are a number of risks associated with the business.

### Interest Rates

Interest rates affect the profitability of commercial properties and the company's land and housing operations. Interest paid on mortgages secured by commercial properties represent a significant cost in the ownership of properties. As a result, the company has fixed a substantial amount of its financing costs.

Interest rates also have an important impact on investor attitudes. The level of interest rates influences the capitalization rates sought by commercial property investors. Interest rates can also affect the ability of consumers to afford new homes. As a result, continued increases in interest rates tend to negatively impact the company's operations.

#### **Lease Maturities**

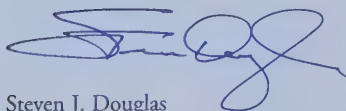
Brookfield currently has 4% of its commercial property space available for leasing, and approximately 4% maturing each year until 2003, when 7% of the company's rental space matures. While this number is not large in proportion to the total portfolio, and portfolio rental rates are on average below market rates, cashflows would decline if market rental rates at the time of lease maturity are less than those currently in place.

#### **Consumer Confidence**

The North American economy affects all aspects of the real estate business. If a disruption in economic growth occurs, this will affect the demand for office space, and hence the rental rates achieved in the company's property portfolio. In the land and housing business, a decline in economic growth would cause decreased consumer confidence which could affect the volume of housing sales as well as the pricing of residential lots sold to other home builders.

#### **FORWARD-LOOKING STATEMENTS**

The company's annual report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe", "expect", "anticipate", "intend", "estimate" and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters identify forward-looking statements. Reliance should not be placed on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the company to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements. Factors that could cause actual results to differ materially from those set forth in the forward-looking statements include general economic conditions, local real estate conditions, timely re-leasing of occupied square footage upon expiration, interest rates, availability of equity and debt financing and other risks detailed from time to time in the company's 40-F filed with the Securities and Exchange Commission. The company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.



Steven J. Douglas

*Senior Vice President and Chief Financial Officer*

# MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The consolidated financial statements and management's financial analysis and review contained in this annual report are the responsibility of the management of the company. To fulfil this responsibility, the company maintains a system of internal controls to ensure that its reporting practices and accounting and administrative procedures are appropriate, and provide assurance that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on management's best judgement in the circumstances. The financial information presented throughout this annual report is consistent with the information contained in the consolidated financial statements.

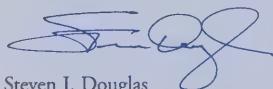
Deloitte & Touche LLP, the independent auditors appointed by the shareholders, have audited the consolidated financial statements in accordance with generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report as auditors is set out below.

The consolidated financial statements have been further examined by the board of directors and by its audit committee which meets regularly with the auditors and management to review the activities of each. The audit committee, which is comprised of four directors who are not officers of the company, reports to the board of directors.



J. Bruce Flatt  
*President and Chief Executive Officer*

February 7, 2000



Steven J. Douglas  
*Senior Vice President and Chief Financial Officer*

## AUDITORS' REPORT

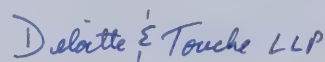
### To the Shareholders,

We have audited the consolidated balance sheets of Brookfield Properties Corporation as at December 31, 1999 and 1998 and the consolidated statements of income, retained earnings and cashflow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and its cashflows for the years then ended in accordance with accounting principles generally accepted in Canada.

Toronto, Canada  
February 7, 2000

  
Chartered Accountants

# CONSOLIDATED BALANCE SHEET

<i>December 31 (Millions)</i>	<i>Note</i>	<i>1999</i>	<i>1998</i>	<i>1999</i>
		<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
<b>Assets</b>				
Commercial properties	2	\$ 8,556	\$ 9,026	\$ 5,942
Residential home building		806	843	560
Development land	3	622	653	432
Receivables and other	4,5	1,411	984	980
Cash and cash equivalents		317	205	220
		\$ 11,712	\$ 11,711	\$ 8,134
<b>Liabilities</b>				
Commercial property debt	6	\$ 6,467	\$ 6,466	\$ 4,491
Residential construction financing and advances	7	1,046	1,252	726
		7,513	7,718	5,217
Accounts payable		381	384	266
<b>Capital Base and Minority</b>				
<b>Shareholders' Interests</b>				
Minority shareholders' interests	8	1,018	922	707
Subordinated convertible debentures	9	372	374	258
Preferred shares	10	366	366	254
Common shares	10	2,062	1,947	1,432
		3,818	3,609	2,651
		\$ 11,712	\$ 11,711	\$ 8,134

On behalf of the board,



Gordon E. Arnell  
Chairman



J. Bruce Flatt  
President and Chief Executive Officer

See accompanying notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF INCOME

<i>Years ended December 31 (Millions, except per share information)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
<b>Revenues</b>			
Commercial property operations	\$ 1,386	\$ 1,261	\$ 930
Land and housing	1,258	1,010	844
Interest and other income	77	92	52
	2,721	2,363	1,826
<b>Expenses</b>			
Commercial property operations	538	511	361
Land and housing	1,164	930	781
Interest	460	429	309
Administrative and development	80	94	54
Minority shareholders' interests	93	109	62
	2,335	2,073	1,567
<b>Cashflow From Operations</b>	<b>386</b>	<b>290</b>	<b>259</b>
Depreciation and amortization	83	73	56
Taxes and other non-cash provisions (Note 5)	75	28	50
<b>Net Income</b>	<b>\$ 228</b>	<b>\$ 189</b>	<b>\$ 153</b>
<b>Net Income Per Basic Common Share</b>	<b>\$ 1.33</b>	<b>\$ 1.06</b>	<b>\$ 0.89</b>
<b>Net Income Per Fully Diluted Common Share</b>	<b>\$ 1.26</b>	<b>\$ 1.04</b>	<b>\$ 0.85</b>

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

<i>Years ended December 31 (Millions)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
<b>Beginning of Year – retained earnings</b>	<b>\$ 121</b>	<b>\$ 13</b>	<b>\$ 79</b>
Net income	228	189	153
Shareholder distributions			
Convertible debenture interest	(22)	(20)	(15)
Dividends paid on preferred shares	(29)	(29)	(19)
Dividends paid on common shares	(42)	(32)	(28)
<b>End of Year – retained earnings</b>	<b>\$ 256</b>	<b>\$ 121</b>	<b>\$ 170</b>

*See accompanying notes to the consolidated financial statements.*

# CONSOLIDATED STATEMENT OF CASHFLOW

<i>Years ended December 31 (Millions)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
<b>Operating Activities</b>			
Cashflow from operations	\$ 386	\$ 290	\$ 259
Recovery, net of investment in land and housing	90	95	60
	476	385	319
<b>Financing Activities and Capital Distributions</b>			
Indebtedness arranged, net of repayments	17	238	11
Equity capital repurchased			
Common shares of subsidiaries	(87)	—	(58)
Common shares of Brookfield	(6)	—	(4)
Convertible debentures issued	—	74	—
Common shares issued	—	3	—
Minority shareholders' cashflow retained	64	30	57
Convertible debenture interest	(22)	(20)	(15)
Preferred share dividends	(29)	(29)	(19)
Common share dividends	(42)	(32)	(28)
Cashflow (used in) provided by financing activities			
and capital distributions	(105)	264	(56)
<b>Investing Activities</b>			
Commercial property tenant improvements	(71)	(44)	(48)
Acquisition and disposition of real estate (net)	(87)	(659)	(64)
Redevelopment expenditures	(63)	(61)	(42)
Capital investments	(15)	(22)	(10)
Other investments and liabilities	(23)	42	(13)
Cashflow used in investing activities	(259)	(744)	(177)
Increase (decrease) in cash resources	112	(95)	86
Opening cash and cash equivalents	205	300	134
Closing cash and cash equivalents	\$ 317	\$ 205	\$ 220

*See accompanying notes to the consolidated financial statements.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

### (a) General

The consolidated financial statements are prepared in accordance with generally accepted accounting principles as prescribed by the Canadian Institute of Chartered Accountants ("CICA"). The company's accounting policies and its financial disclosure are substantially in accordance with the recommendations of the Canadian Institute of Public Real Estate Companies ("CIPREC").

### (b) Principles of Consolidation

The consolidated financial statements include:

- (i) the accounts of all subsidiaries of Brookfield Properties Corporation (the "company") including its wholly owned commercial property operations and home building subsidiaries, as well as Gentra Inc. ("Gentra"), Brookfield Management Services Ltd. ("Brookfield Management"), Carma Corporation ("Carma"), and Brookfield Financial Properties Inc. ("Brookfield Financial Properties") since March 1998 (see Note 11); and
- (ii) the accounts of all subsidiaries' incorporated and unincorporated joint ventures and partnerships to the extent of the company's proportionate interest in their respective assets, liabilities, revenue and expenses, including the company's investment in Brookfield Financial Properties until March 1998 (see Note 11).

The company's ownership interests in operating entities which are not wholly owned are as follows:

- (i) *Brookfield Financial Properties*: The company owns a 90% (1998 – 90%) limited partnership equity and general partnership interest in Brookfield Financial Properties.
- (ii) *Gentra*: The company owns 52% (1998 – 45%) on an equity basis (effective February 10, 2000 increased to 59%) and 47% (1998 – 45%) on a voting basis of the common shares of Gentra.
- (iii) *Brookfield Management*: The company owns 100% (1998 – 100%) of the common shares of Brookfield Management.
- (iv) *Carma*: The company owns 82% (1998 – 80%) of the common shares of Carma.

### (c) Properties

#### (i) Commercial Properties

Commercial properties held for investment are carried at the lower of cost less accumulated depreciation and net recoverable amount. Depreciation on buildings is provided on the sinking-fund basis over the useful lives of the properties to a maximum of 60 years. The sinking-fund method provides for a depreciation charge of an annual amount increasing on a compounded basis of 5% per annum. Depreciation is determined with reference to each rental property's carried value, remaining estimated useful life and residual value. Tenant improvements and re-leasing costs are deferred and amortized over the lives of the leases to which they relate.

The net recoverable amount represents the undiscounted estimated future net cashflow expected to be received from the ongoing use of the property and its residual value. To arrive at this amount, the company projects the cashflow for each property over a maximum of ten years and includes an estimate of the residual proceeds from a sale at the end of the period. The projections take into account the specific business plan for each property and management's best estimate of the most probable set of economic conditions anticipated to prevail in the market.

#### (ii) Commercial Properties Under Development

Commercial properties under development consist of properties for which a major repositioning program is being conducted and properties which are under construction. These properties are recorded at the lower of cost, including pre-development expenditures, and the net recoverable amount.

(iii) *Development Land*

Development land is held for residential development and is recorded at the lower of cost and estimated net realizable value. Costs are allocated to the saleable acreage of each project or subdivisions in proportion to the anticipated revenue.

(iv) *Homes and Other Properties Held for Sale*

Homes and other properties held for sale, which include properties subject to sales agreements, are recorded at the lower of cost and net realizable value. Income received relating to homes and other properties held for sale is offset against the cost of these properties.

**(d) Capitalized Costs**

Costs are capitalized on commercial and residential properties which are under development, home building properties and other properties held for sale, including all expenditures incurred in connection with the acquisition, development, construction and operating costs received during the initial pre-determined leasing period. These expenditures consist of all direct costs, interest on debt that is related to these assets and certain administrative expenses. Revenues relating specifically to such properties, except homes and the sale of building lots, are treated as a reduction of costs.

**(e) Revenue Recognition**

Revenue from a commercial property is recognized upon the earlier of attaining a break-even point in cash-flow after debt servicing, or the expiration of a reasonable period of time following substantial completion, subject to the time limitation determined when the project is approved. Prior to this, the property is categorized as a rental property under development, and revenue related to such property is applied to reduce development costs.

The company has retained substantially all of the risks and benefits of ownership of its rental properties and therefore accounts for leases with its tenants as operating leases. Rental revenue includes percentage participating rents and recoveries of operating expenses, including property, capital and large corporation taxes.

Income from the sale of land and other properties is recorded when the collection of the sale proceeds is reasonably assured and all other significant conditions are met. Properties which have been sold, but for which these criteria have not been satisfied, are included in home building assets.

**(f) Income Taxes**

Effective January 1, 1999, the company adopted the new recommendations of the CICA with respect to accounting for income taxes under the liability method. Under this method, future income tax assets and liabilities are calculated based on: (i) the temporary differences between the carrying values and the tax bases of assets and liabilities, and (ii) unused income tax losses, and measured using substantially enacted income tax rates and laws that are expected to apply in the future as the temporary differences reverse and the income tax losses are used. The company has applied this new method retroactively in respect of past business combinations, however, the financial statements for prior years have not been restated. See Note 5 for additional information on the composition of the income tax asset and expense.

**(g) Foreign Exchange**

The company's operations in the United States are self-sustaining. Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the weighted average rate for the year. Gains or losses arising from the translation of US dollar denominated debt are amortized over the life of the debt and included in other revenues.

**(h) US Dollar Amounts**

The financial statements presented herein are expressed in Canadian dollars and, solely for the information of the reader, have been translated into US dollars for 1999. For presentation purposes, the following rates were used: (i) the balance sheet rate of Cdn\$1.4400 = US\$1.00, the prevailing rate on December 31, 1999, and (ii) the income statement and statement of cashflow at a rate of Cdn\$1.4900 = \$1.00, the weighted

average rate for the year ended December 31, 1999. This unaudited translation should not be construed (i) as a representation that the Canadian dollar amounts shown could be so converted into US dollars at those particular rates or at any other rates, or (ii) as being the amounts which would be displayed if the US dollar was the reporting currency.

**(i) Per Share Calculations**

Net income per fully diluted common share has been calculated after providing for preferred share dividends using the weighted average number of fully diluted common shares outstanding of 160,644,602 (1998 – 157,957,521).

**(j) Cash and Cash Equivalents**

Cash and cash equivalents include Cdn\$158 million (1998 – Cdn\$121 million), which is designated for property specific taxes, operating costs and tenant improvement expenditures, unless otherwise approved by the respective property mortgage holder. The balance also includes securities of \$nil (1998 – Cdn\$27 million), which were sold in 1999 at carried value.

**(k) Use of Estimates**

The preparation of financial statements, in conformity with generally accepted accounting principles, requires estimates and assumptions that affect the carried amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

**(l) Cashflow from Operations**

Cashflow from operations is a measurement defined by CIPREC as net income before certain items including non-cash tax charges, depreciation and amortization. As a result, this has been included as a separate line on the consolidated statement of net income.

**NOTE 2: COMMERCIAL PROPERTIES**

<i>(Millions)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Commercial properties	<b>\$ 8,886</b>	<b>\$ 9,278</b>	<b>\$ 6,171</b>
Less: accumulated depreciation	<b>(330)</b>	<b>(252)</b>	<b>(229)</b>
<b>Total</b>	<b>\$ 8,556</b>	<b>\$ 9,026</b>	<b>\$ 5,942</b>

(a) The strengthening of the Canadian dollar in relation to the US dollar during 1999 caused the translated value of US dollar denominated assets and liabilities to decrease. As a result, from December 31, 1999 to December 31, 1998, the carrying cost of properties decreased by Cdn\$405 million (1998 – Cdn\$375 million increase) when translated into Canadian dollars. This is substantially offset by a decrease in carrying value of debt which finances these assets.

(b) Commercial properties, carried at a net book value of approximately Cdn\$3,540 million are situated on land held under leases or other agreements largely expiring after the year 2069. Minimum rental payments on land leases are approximately Cdn\$34 million annually for the next five years and Cdn\$1,583 million in total.

(c) Commercial properties are carried net of Cdn\$234 million (1998 – Cdn\$46 million) which arose on the acquisition of the company's ownership interests in certain commercial properties. Deferred credits of Cdn\$34 million (1998 – Cdn\$46 million) relate to lease incentives in place at the time of acquisition. Commercial properties were reduced by Cdn\$200 million (1998 – nil) as a result of the application of accounting for income taxes (Note 5).

(d) Construction costs of Cdn\$46 million (1998 – Cdn\$54 million), interest costs of Cdn\$5 million (1998 – Cdn\$0.5 million) and Cdn\$1 million (1998 – Cdn\$1 million) of general and administrative expenses were capitalized to the commercial property portfolio for properties undergoing redevelopment in 1999.

(e) The company acquired a controlling interest in Brookfield Financial Properties in 1998, and accordingly, commenced full consolidation (Note 11).

(f) The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures and partnerships:

(Millions)	1999	1998	1999
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Assets	\$ 1,278	\$ 1,193	\$ 888
Liabilities	767	875	533
Operating revenues	211	188	142
Operating expenses	71	61	47
Net income	72	67	48
Cashflow from operating activities	82	75	55
Cashflow from financing activities	(6)	106	(4)
Cashflow from investing activities	(2)	(205)	(1)

### NOTE 3: DEVELOPMENT LAND

Development land includes residential land under development and residential land held for development, largely in later phases of master-planned communities, which will either be sold as lots to home builders or used in the company's home building operations.

(Millions)	1999	1998	1999
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Residential land under development	\$ 400	\$ 379	\$ 278
Residential land held for development	222	274	154
Total	\$ 622	\$ 653	\$ 432

Residential land development includes the entitlement and processing of land. The company capitalizes interest and administrative and development costs which are expensed as building lots and homes are sold. During 1999, after interest recoveries of Cdn\$81 million (1998 – Cdn\$72 million), the company capitalized a net Cdn\$12 million (1998 – Cdn\$6 million) of interest and capitalized a net Cdn\$1 million (1998 – Cdn\$2 million) of administrative and development costs.

The company, through its subsidiaries, is contingently liable for obligations of its associates in its residential development land joint ventures. In each case, all of the assets of the joint venture are available first for the purpose of satisfying these obligations with the balance shared among the participants in accordance with pre-determined joint venture arrangements.

### NOTE 4: RECEIVABLES AND OTHER

The majority of the secured real estate mortgages, loans and receivables mature prior to 2002. The intention is to re-invest most of this capital in the company's commercial property business. A description of these assets is as follows:

(Millions)	Weighted Average Interest Rate at Dec. 31, 1999	1999	1998	1999
		<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Real estate mortgages				
Office properties	11.1%	\$ 69	\$ 92	\$ 48
Retail properties	7.6%	37	96	26
Multi-family residential, hotel and other	7.9%	74	90	51
Other real estate receivables	6.7%	372	266	258
Non-core real estate assets held for sale		230	158	160
Future income tax assets (Note 5)		446	—	310
Prepaid expenses and other assets		183	282	127
Total		\$ 1,411	\$ 984	\$ 980

## NOTE 5: INCOME TAXES

Effective January 1, 1999, the company adopted the new recommendations of the CICA with respect to accounting for income taxes. This change in accounting policy resulted in the recognition of a future income tax asset of Cdn\$562 million, an increase in the minority shareholders' interests of Cdn\$146 million, and a decrease in receivables and other of Cdn\$41 million. The company's retroactive application of this policy has resulted in revisions to accounting for prior year business combinations, and accordingly, the company has reduced commercial properties by Cdn\$200 million, development land by Cdn\$100 million and increased commercial property debt by Cdn\$34 million. The change in accounting policy had no effect on opening retained earnings for 1999.

Future income tax assets consist of the following:

(Millions)	1999	1998	1999
	Cdn\$	Cdn\$	US\$
Future income tax assets related to non-capital and capital losses	\$ 762	—	\$ 529
Future income tax liabilities related to differences in tax and book basis, net	(316)	—	(219)
Total	\$ 446	—	\$ 310

The future income tax assets relate primarily to non-capital losses available to reduce taxable income which may arise in the future. The company and its Canadian subsidiaries have future income tax assets of Cdn\$324 million which relate to non-capital losses which expire over the next seven years. The company's US subsidiaries have future income tax assets of Cdn\$406 million which relate to non-capital losses which expire over the next 17 years. The amount of non-capital losses and deductible temporary differences for which no future income tax assets have been recognized is Cdn\$772 million.

Future income tax expense consists of the following:

(Cdn\$ Millions)	1999
Income tax expense at the Canadian federal and provincial income tax rate of 43.5%	\$ 132
Increase (decrease) in income tax expense due to the following:	
Lower foreign income taxes on foreign income	(20)
Minority shareholders' interest in income tax expense	(23)
Other	(14)
Future income tax expense	\$ 75

For 1998, the actual effective tax rate differs from the statutory rate due primarily to the application of capital and non-capital losses carried forward.

## NOTE 6: COMMERCIAL PROPERTY DEBT

The company's long-term commercial property debt outstanding and principal repayments at December 31, 1999 are as follows:

(Cdn\$ Millions)	Weighted Average Interest Rate at Dec. 31, 1999	2000	2001	2002	2003	2004	2005 & Beyond	1999 Total	1998 Total
Commercial property debt	7.3%	\$ 208	\$ 146	\$ 144	\$ 936	\$ 158	\$ 4,875	\$ 6,467	\$ 6,466

Long-term debt includes Cdn\$5,172 million (1998 – Cdn\$5,475 million) repayable in US dollars of \$3,592 million (1998 – US\$3,579 million). The weighted average interest rate at December 31, 1998 was 7.3%.

## NOTE 7: RESIDENTIAL CONSTRUCTION FINANCING AND ADVANCES

Residential construction financing and advances totalled Cdn\$1,046 million (1998 – Cdn\$1,252 million). Residential construction financing relates to construction and development loans which are repaid out of the proceeds from the sale of building lots, single-family and condominium homes. As new homes are constructed, further loan facilities are arranged on a rolling basis. The weighted average interest rate on these facilities as at December 31, 1999 was 8.6% (1998 – 7.7%). Of these facilities, Cdn\$411 million are due by the end of 2000, and the remaining balances are due prior to 2004.

Residential construction financing and advances consist of the following:

(Millions)	1999	1998	1999
	Cdn\$	Cdn\$	US\$
Residential construction financing	\$ 649	\$ 624	\$ 451
Shareholder advances			
Revolving five-year term facilities	225	225	156
Other, including land and housing financing	167	268	116
Term notes	5	135	3
Total	\$ 1,046	\$ 1,252	\$ 726

The revolving five-year term facilities and other facilities bear interest at the prime rate. US\$150 million of this balance is convertible at either party's option into a fixed-rate financing at 9.75% repayable in 2015. The term notes bear interest at a rate approximating the bankers' acceptance rate plus 1%. Interest expense includes Cdn\$13 million (1998 – Cdn\$19 million) of interest relating to shareholder advances.

## NOTE 8: MINORITY SHAREHOLDERS' INTERESTS

Minority shareholders' interests includes common equity and perpetual preferred share equity of subsidiaries owned by others. Minority shareholders' interests are comprised of the following:

(Millions)	Minority Ownership	1999	1998	1999
		Cdn\$	Cdn\$	US\$
Participation by minority shareholders in the common equity of subsidiaries				
Gentra Inc.	48%	\$ 328	\$ 233	\$ 228
Brookfield Financial Properties	10%	135	136	94
Carma Corporation	18%	16	14	11
		479	383	333
Perpetual preferred shares of subsidiaries owned by other shareholders				
Gentra Inc.		382	382	265
Carma Limited		102	102	71
Brookfield Homes Ltd.		55	55	38
		539	539	374
Total		\$ 1,018	\$ 922	\$ 707

## NOTE 9: SUBORDINATED CONVERTIBLE DEBENTURES

The company has issued the following subordinated convertible debentures:

Amount (Cdn\$ Millions)	Interest Rate	Issue Date	Maturity Date	Common Share Conversion
\$ 299	6%	February 1997	February 2007	19,997,948
\$ 73	6%	June 1998	June 2008	2,622,100

### (a) February 2007 Debentures

These debentures, which are expressed in Canadian dollars, are convertible into common shares at the option of the holder at any time prior to the close of business on the earlier of February 13, 2007 and the last business day immediately preceding the date fixed for redemption, at a conversion price of Cdn\$15.00 per share, being a rate of approximately 6.67 common shares per Cdn\$100 principal amount of debentures.

The February 2007 debentures are not redeemable prior to February 14, 2000. Thereafter, and until February 14, 2002, the debentures are redeemable by the company at par plus accrued and unpaid interest, but only if the weighted average daily closing price, at which the common shares of the company have traded on The Toronto Stock Exchange during 20 consecutive trading days, exceeds 125% of the conversion price. After February 14, 2002, the debentures are redeemable by the company at par plus accrued and unpaid interest. The company, at its option, has the right to call for a subscription for common shares at market from its principal shareholder to fund interest payments on these debentures.

On maturity or redemption, the company has the right, at its option, to deliver common shares of the company at 95% of the weighted average daily closing price, in return for the amount owing on the debentures in February 2007.

During 1999, a face amount of Cdn\$1,800 (1998 – Cdn\$30,000) of the February 2007 debentures were converted into 119 (1998 – 2,000) common shares of the company.

### (b) June 2008 Debentures

These debentures, which are expressed in US dollars, are convertible into common shares at the option of the holder at any time at a conversion price of US\$19.07 per share. The debentures mature on June 30, 2008 and bear annual interest at 6%. The company has the right, at its option, to pay both interest and principal repayments in common shares of the company issued at market value at the time.

The debentures are not redeemable on or prior to June 26, 2001. After June 26, 2001, the debentures are redeemable at par plus accrued and unpaid interest, provided that the current market price of the common shares on the date on which such notice of redemption is first given is not less than 109% of the conversion price.

On maturity or redemption, the company has the right, at its option, to deliver common shares of the company at 95% of the weighted average daily closing price, in return for the principal amount owing on the debentures.

## NOTE 10: PREFERRED SHARES AND COMMON SHARES

The authorized share capital consists of:

6,312,000	Class A redeemable voting preferred shares
6,000,000	Class AA redeemable preferred shares
Unlimited	Class AAA redeemable preferred shares
Unlimited	Common voting shares

The issued and outstanding share capital consists of:

(Millions, except per share information)		1999	1998	1999
		Cdn\$	Cdn\$	US\$
<b>Preferred Shares</b>				
6,312,000	Class A preferred shares bearing a cumulative dividend rate of 7½%	\$ 16	\$ 16	\$ 11
2,000,000	Class AA Series E preferred shares bearing a cumulative dividend rate of 70% of bank prime	50	50	35
3,000,000	Class AAA Series A preferred shares bearing a cumulative dividend rate of 9%	75	75	52
3,000,000	Class AAA Series B preferred shares bearing a cumulative dividend rate of 9% and exchangeable into common shares of the company on a public offering	75	75	52
6,000,000	Class AAA Series C and D preferred shares bearing a cumulative dividend rate of 8% and exchangeable into common shares of the company on a public offering	150	150	104
		366	366	254
<b>Common Shares</b>				
132,692,936	Common shares (1998 – 133,071,717)	1,635	1,641	1,135
	Retained earnings, contributed surplus and cumulative translation adjustment	427	306	297
		2,062	1,947	1,432
Total		\$ 2,428	\$ 2,313	\$ 1,686

The company has a management share option plan in which options vest proportionately over five years and expire ten years after the grant date. The exercise price is equal to the market price at the time they are granted.

Members of the share option plan can elect to purchase shares at the exercise price or receive cash equal to the difference between the exercise price and the current market price.

The following table sets out the number of common shares which the company may issue under the management share option plan:

	Issue Date	Expiry Date	1999	
			Number of shares	Weighted average exercise price
Stock option plan	1995	2002	150,000	\$ 5.25
	1996	2002	515,000	5.00
	1997	2008	288,400	11.50
	1998	2009	795,000	18.47
	1999	2009	345,500	17.00
			2,093,900	\$ 13.01

During 1999, the company issued 10,300 shares (1998 – 45,100) on the exercise of options issued under the company's management share option plan for cash proceeds of Cdn\$0.1 million (1998 – Cdn\$0.4 million). In 1998, 192,644 common shares were issued on conversion of convertible debentures of a subsidiary pursuant to the privatization of that subsidiary. The company also issued 119 (1998 – 2,000) common shares as a result of the conversion of Cdn\$1,800 (1998 – Cdn\$30,000) face amount of the February 2007 debentures. During 1999, the company acquired for cancellation 389,200 (1998 – nil) common shares of the company under a normal course issuer bid at an average price of Cdn\$15.58 (US\$10.46) per share.

As at December 31, 1998, 1,758,700 common shares were reserved for issuance of options under the share option plan at an average exercise price of Cdn\$13 per common share.

A limited partner, holding a 5% interest in Brookfield Financial Properties, has the right to exchange its interest for 3,580,600 shares of the company in 2003.

Retained earnings, contributed surplus and cumulative translation adjustment include a foreign currency cumulative translation adjustment of Cdn\$16 million (1998 – Cdn\$30 million) and contributed surplus of Cdn\$155 million (1998 – Cdn\$155 million).

## NOTE 11: CORPORATE ACQUISITIONS

Acquisitions undertaken in 1999 were of a stand-alone asset nature and did not include acquisitions of corporations. During 1998, the company acquired an additional 24% interest in Brookfield Financial Properties which was accounted for under the purchase method of accounting. The net assets acquired as a result of the acquisition in 1998, and the consideration, are as follows:

	Brookfield Financial Properties March 1998
<i>(Cdn\$ Millions)</i>	
<b>Assets Acquired</b>	
Commercial properties	\$ 1,462
Cash and restricted cash	10
Other assets	66
	<hr/> 1,538
<b>Liabilities Assumed</b>	
Mortgage debt	1,155
Accounts and notes payable	16
Minority interests	118
	<hr/> 1,289
<b>Net Assets Acquired</b>	<hr/> \$ 249
<b>Consideration Paid</b>	
Cash	\$ 175
Convertible debentures	74
<b>Total</b>	<hr/> \$ 249

## NOTE 12: SEGMENTED INFORMATION

The company and its subsidiaries operate in Canada and the United States in two major industry segments:

- the ownership of rental properties, largely office properties; and
- the building of homes for sale to customers and the acquisition, development and sale of residential lots to home builders.

The following summary presents segmented financial information for the company's principal areas of business by industry and geographic location:

	Canada		United States		Total	
(Cdn\$ Millions)	1999	1998	1999	1998	1999	1998
<b>Commercial Property Operations*</b>						
Rental revenues	\$ 364	\$ 331	\$ 1,022	\$ 930	\$ 1,386	\$ 1,261
Expenses	165	161	373	350	538	511
	199	170	649	580	848	750
<b>Land and Housing</b>						
Home and lot sales	257	226	1,001	784	1,258	1,010
Expenses	230	191	934	739	1,164	930
	27	35	67	45	94	80
<b>Other Revenues</b>	56	68	21	24	77	92
<b>Operating Income</b>	282	273	737	649	1,019	922
Depreciation and amortization	21	27	62	46	83	73
Taxes and other provisions	(50)	13	125	15	75	28
Income before unallocated costs	311	233	550	588	861	821
Unallocated interest, administration and minority interest expenses					633	632
<b>Net Income</b>					\$ 228	\$ 189
<b>Assets</b>						
Commercial properties	\$ 2,061	\$ 2,124	\$ 6,495	\$ 6,902	\$ 8,556	\$ 9,026
Land and housing	212	337	1,216	1,159	1,428	1,496
Receivables and other	867	484	544	500	1,411	984
Cash and cash equivalents	126	78	191	127	317	205
	\$ 3,266	\$ 3,023	\$ 8,446	\$ 8,688	\$ 11,712	\$ 11,711
Commercial property tenant improvements	\$ 18	\$ 16	\$ 53	\$ 28	\$ 71	\$ 44
Acquisition and disposition of real estate (net)	51	61	36	598	87	659
Redevelopment expenditures	53	33	10	28	63	61
Capital expenditures	9	15	6	7	15	22

\*During 1999, rental revenues from Merrill Lynch & Company Inc. accounted for 11% (1998 – 12%) of consolidated revenue.

## OTHER INFORMATION

### Note 13: Cashflow From Operations Differences

Cashflow from operations, as reported, recognizes rental revenue over the term of a lease as it becomes contractually due. Applying the straight-line method of rental revenue recognition on a proforma basis would increase cashflow from operations for fully diluted common shareholders to Cdn\$408 million (1998 – Cdn\$317 million) from the reported level of Cdn\$386 million (1998 – Cdn\$290 million).

<i>Years ended December 31 (Millions, except per share amounts)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Cashflow from operations – as reported	\$ 386	\$ 290	\$ 259
Adjustment to reflect straight-line rental revenue	27	30	19
Minority shareholders' interests	(5)	(3)	(3)
Cashflow from operations – proforma	\$ 408	\$ 317	\$ 275
<b>Cashflow from Operations Per Share</b>			
Basic and fully diluted – proforma	\$ 2.39	\$ 1.82	\$ 1.61

### Note 14: Differences From United States Accounting Principles

Canadian generally accepted accounting principles ("Canadian GAAP") differ in some respects from the principles that the company would follow if its consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). The effects of significant accounting differences on the company's balance sheet and statements of income, retained earnings and cashflow are quantified and described in the accompanying notes.

Under Canadian GAAP, companies are permitted to provide supplementary measures of earnings, earnings per share and cashflow per share in the notes to the consolidated financial statements, provided that these measures are not given the same prominence as reported earnings per share. For the purpose of reporting under US GAAP, companies do not disclose supplementary measures of net earnings, earnings per share, cashflow per share and cashflow from operations.

#### (a) Income Statement Differences

The incorporation of the significant differences in accounting principles in the company's income statements for the years ended December 31, 1999 and 1998 under US GAAP would result in net income under US GAAP of Cdn\$147 million (1998 – Cdn\$83 million). The main differences between Canadian GAAP and US GAAP are summarized in the following table:

<i>Years ended December 31 (Millions, except per share numbers)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Net income as reported under Canadian GAAP	\$ 228	\$ 189	\$ 158
Adjustments			
Increased commercial property income under US GAAP	27	30	19
Increased commercial property depreciation under US GAAP	(97)	(97)	(67)
Decreased (increased) deferred income taxes under US GAAP	4	(58)	3
Subordinated convertible debenture interest	(22)	(20)	(15)
Stock option expense	(1)	(1)	(1)
Minority shareholders' interests	8	40	5
<b>Net Income Under US GAAP*</b>	<b>\$ 147</b>	<b>\$ 83</b>	<b>\$ 102</b>
<b>Net Income Per Share</b>			
Basic and diluted	\$ 0.88	\$ 0.41	\$ 0.61

\* There are no extraordinary items or discontinued operations in these results.

Under US GAAP, the translation to US dollars within this note has been done at the balance sheet rate of Cdn\$1.44 = US\$1.00, the prevailing rate on December 31, 1999.

All of the instruments which provide for the issuance of additional common shares of the company at the option of the holder, disclosed elsewhere in these financial statements, are anti-dilutive, and accordingly, have been excluded from the calculation of diluted net income per share under US GAAP.

The significant differences in each category between Canadian GAAP and US GAAP are as follows:

– *Commercial Property Income*

Under Canadian GAAP, rental revenue has been recognized over the term of the lease as it becomes due where increases in rent are intended to offset the estimated effects of inflation. Under US GAAP, rental revenue is recognized on a straight-line basis over the term of the lease. The net impact of using the straight-line method on the income of the company would be to increase the commercial property revenue by Cdn\$27 million (1998 – Cdn\$30 million).

– *Commercial Property Depreciation*

Under Canadian GAAP, commercial properties have been depreciated using the sinking-fund method. Under US GAAP, commercial properties are depreciated on a straight-line basis. In recomputing depreciation on a straight-line basis, the additional depreciation expense would be Cdn\$97 million (1998 – Cdn\$97 million).

– *Deferred Income Taxes*

Under Canadian GAAP, the company adopted the liability method with respect to accounting for income taxes effective January 1, 1999. In 1998, the deferral method of accounting for income taxes was followed. Under US GAAP, income taxes are accounted for using the liability method. For the year ended December 31, 1999, a reduction of deferred income tax expense of Cdn\$4 million (1998 – Cdn\$58 million increase) would be recorded under US GAAP due to the tax effect of the stated differences between Canadian and US GAAP.

– *Subordinated Convertible Debentures*

Under Canadian GAAP, the company's subordinated convertible debentures are recorded as a component of the company's capital base and interest paid thereon recorded as a distribution from retained earnings, as a result of the company having the option of repaying these debentures by delivering its common shares to the holders and meeting interest obligations by issuing common shares. Under US GAAP, Cdn\$372 million (1998 – Cdn\$374 million) of subordinated convertible debentures would be recorded as indebtedness. The corresponding interest charge of Cdn\$22 million (1998 – Cdn\$20 million) is recorded as a charge to income compared with a distribution from retained earnings under Canadian GAAP. There is no effect on basic or fully diluted net income per share.

– *Stock Options Expense*

Under Canadian GAAP, no compensation expense has been recorded in respect of stock options granted during the year. Under US GAAP, the company has adopted the recommendations of the Statement of Financial Accounting Standards No. 123 ("SFAS 123") which is entitled, "Accounting for Stock-Based Compensation" and which establishes financial accounting and reporting standards for stock-based employee compensation plans.

Under SFAS 123, the company accounts for stock options or similar equity instruments under a fair value methodology. Under this method, options are valued using an acceptable valuation method and the charge on an annual basis is reflected in the income statement. Using the Black-Scholes model of valuation, assuming a ten-year term, 27% volatility (1998 – 27%) and an interest rate of 6.0% (1998 – 5.5%), the cost of stock compensation would be Cdn\$1 million (1998 – Cdn\$1 million). This amount has been recorded as an expense under US GAAP.

– *Minority Shareholders' Interests*

Under US GAAP, minority shareholders' interests are adjusted for the other differences from Canadian GAAP. The total adjustment results in minority shareholders' interests increasing by Cdn\$8 million (1998 – Cdn\$40 million), which relate to a recovery of Cdn\$13 million (1998 – Cdn\$20 million) from increased commercial property depreciation and \$nil (1998 – Cdn\$23 million) from increased deferred taxes, offset by Cdn\$5 million (1998 – Cdn\$3 million) relating to the minority shareholders' interests in the straight-line rental income.

**(b) Comprehensive Income**

Under US GAAP, the Financial Accounting Standards Board ("FASB") issued SFAS No. 130 "Reporting Comprehensive Income." Comprehensive income, which incorporates net income, includes all changes in equity during the year, and accordingly, the change in the company's cumulative translation adjustment is reflected in the company's calculation of comprehensive income for fiscal 1999 and 1998:

<i>Years ended December 31 (Millions)</i>	1999	1998	1999
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Net income under US GAAP	\$ 147	\$ 83	\$ 102
Foreign currency translation adjustment	(14)	2	(10)
Comprehensive income	\$ 133	\$ 85	\$ 92

**(c) Balance Sheet Differences**

There are differences in the treatment of balance sheet items between Canadian GAAP and US GAAP. The incorporation of the significant differences in accounting principles in the company's financial statements as at December 31, 1999 and 1998, would result in the following balance sheet presentation under US GAAP:

<i>As at December 31 (Millions)</i>	1999	1998	1999
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
<b>Assets</b>			
Commercial properties	\$ 8,205	\$ 8,503	\$ 5,698
Residential home building	806	843	560
Development land	622	558	432
Receivables and other	1,081	1,072	750
Deferred income taxes	539	651	375
Cash and cash equivalents	317	178	220
Total assets under US GAAP	\$ 11,570	\$ 11,805	\$ 8,035
<b>Liabilities and Shareholders' Equity</b>			
Commercial property debt	\$ 6,467	\$ 6,466	\$ 4,491
Residential construction financing	649	624	451
Notes and shareholders advances	397	628	275
	7,513	7,718	5,217
Accounts payable	381	384	266
Minority shareholders' interests	991	1,041	688
Subordinated convertible debentures	372	374	258
Preferred shares	366	366	254
Common shares	1,947	1,922	1,352
Total liabilities and equity under US GAAP	\$ 11,570	\$ 11,805	\$ 8,035

The significant differences in each category between Canadian GAAP and US GAAP are as follows:

**– Commercial Properties**

<i>As at December 31 (Millions)</i>	1999	1998	1999
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Commercial properties under Canadian GAAP	\$ 8,556	\$ 9,026	\$ 5,942
Additional accumulated depreciation under US GAAP	(351)	(246)	(244)
Other	—	(277)	—
Commercial properties under US GAAP	\$ 8,205	\$ 8,503	\$ 5,698

There are two principal differences between Canadian GAAP and US GAAP affecting the carrying value of commercial properties. The first difference relates to US GAAP requiring straight-line depreciation to be applied to depreciable assets rather than the sinking-fund method of depreciation. At December 31, 1999, this would result in a cumulative adjustment of Cdn\$351 million (1998 – Cdn\$246 million). The second difference relates to the method of accounting for joint ventures and partnerships. Under Canadian GAAP, the accounts of all incorporated and unincorporated joint ventures and partnerships are proportionately consolidated according to the company's ownership interest. Under US GAAP, the equity method of accounting is applied. In circumstances where a joint venture is an operating entity and the significant financial and operating policies are, by contractual arrangement, jointly controlled by all parties having an equity interest in the entity, US regulations do not require adjustment to equity account the joint ventures. The presentation of the company's joint ventures does not require adjustment to the equity method.

Under Canadian GAAP, commercial properties held for investment purposes are carried at the lower of cost and net recoverable amount as disclosed in Note 1(c). Under US GAAP, such assets, on an identifiable unit basis, are required to be reviewed for impairment in accordance with the requirements under Statement of Financial Accounting Standards No. 121, which is entitled, "Accounting for the Impairment of Long-Lived Assets and for Assets to be Disposed Of." There is no material impact as a result of this as at December 31, 1999 and 1998.

#### – Receivables and Other

<i>December 31 (Millions)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
Receivables and other under Canadian GAAP	\$ 1,411	\$ 984	\$ 980
Straight-line rent receivable	116	83	80
Short-term investments	—	27	—
Reclassification of deferred taxes and other adjustments	(446)	(22)	(310)
Receivables and other under US GAAP	\$ 1,081	\$ 1,072	\$ 750

The principal differences in the accounting for receivables and other under US GAAP is the inclusion of a straight-line rent receivable of Cdn\$116 million (1998 – Cdn\$83 million), and the reclassification of deferred income taxes which are disclosed separately.

#### – Deferred Income Taxes

Under US GAAP, the company has a deferred tax asset of Cdn\$539 million (1998 – Cdn\$651 million). The offsetting balance created by this adjustment decreases receivables and other by Cdn\$446 million (1998 – Cdn\$24 million), development land by \$nil (1998 – Cdn\$95 million) to offset purchase discrepancies, commercial properties by \$nil (1998 – Cdn\$277 million) to offset purchase discrepancies, and increases shareholders' equity by Cdn\$93 million (1998 – Cdn\$118 million) and minority shareholders' interests by \$nil (1998 – Cdn\$137 million) representing minority shareholders' interests in the benefit of subsidiaries' tax losses.

The deferred income tax asset under US GAAP is calculated as follows:

<i>December 31 (Millions)</i>	<b>1999</b>	<b>1998</b>	<b>1999</b>
	<i>Cdn\$</i>	<i>Cdn\$</i>	<i>US\$</i>
<b>Canada</b>			
Tax assets related to operating and capital losses	\$ 519	\$ 414	\$ 360
Tax assets related to differences in tax and book basis	152	259	106
Valuation allowance	(186)	(186)	(129)
<b>United States</b>			
Tax assets related to operating and capital losses	515	615	358
Tax liabilities related to differences in tax and book basis	(330)	(305)	(229)
Valuation allowance	(131)	(146)	(91)
Deferred income tax asset under US GAAP	\$ 539	\$ 651	\$ 375

– Common Shareholders' Equity

December 31 (Millions)	1999	1998	1999
	Cdn\$	Cdn\$	US\$
Common shareholders' equity under Canadian GAAP	\$ 2,062	\$ 1,947	\$ 1,432
Adjustment to accumulated depreciation under US GAAP	(351)	(246)	(244)
Adjustment to deferred income tax asset under US GAAP	93	118	64
Rental revenue adjustments under US GAAP	116	83	80
Minority shareholders' interests	27	20	20
Common shareholders' equity under US GAAP	\$ 1,947	\$ 1,922	\$ 1,352

As a result of the above adjustments, components of common shareholders' equity under US GAAP, after the adjustments above, are as follows:

December 31 (Millions)	1999	1998	1999
	Cdn\$	Cdn\$	US\$
Common shares	\$ 1,635	\$ 1,641	\$ 1,135
Additional paid-in capital, net*	411	276	285
Cumulative translation adjustment	27	41	20
Cumulative adjustments to net income and retained earnings	(126)	(36)	(88)
Common shareholders' equity under US GAAP	\$ 1,947	\$ 1,922	\$ 1,352

\*Includes deficit of \$189 million (1998 – \$324 million).

– Joint Ventures

The following amounts represent the company's proportionate interest in incorporated and unincorporated joint ventures reflected in the company's balance sheet for US GAAP purposes:

As at December 31 (Millions)	1999	1998	1999
	Cdn\$	Cdn\$	US\$
Assets	\$ 992	\$ 916	\$ 689
Liabilities	451	539	313
Operating revenues	151	113	105
Operating expenses	55	42	38
Net income	43	30	30
Cashflows from operating activities	59	31	41
Cashflows from investing activities	(6)	106	(4)
Cashflows from financing activities	(2)	(205)	(1)

(d) Cashflow Statement Differences

The statement of cashflow prepared under US GAAP differs from Canadian GAAP because US GAAP requires reclassification of interest on convertible debentures from a financing item to an operating item. As a result of the differences in accounting for these items described, the summarized cashflow statement under US GAAP is as follows:

Years ended December 31 (Millions)	1999	1998	1999
	Cdn\$	Cdn\$	US\$
Cashflows from (applied to) the following activities			
Operating	\$ 364	\$ 230	\$ 253
Financing	(60)	434	(42)
Investing	(165)	(557)	(114)
Net increase in cash and cash equivalents	\$ 139	\$ 107	\$ 97

*(e) Recent Accounting Pronouncements*

In June 1998, FASB issued Statement of Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which establishes the accounting and reporting standards for derivative instruments, including instruments embedded in other contracts, and hedging activities. SFAS 133 is effective for financial statements for fiscal years beginning after June 15, 2000. The company does not use derivatives for speculative purposes. The effect of SFAS 133 on the company's reporting has yet to be determined.

**Note 15: Contingencies and Other**

*(a)* The company and its operating subsidiaries are contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability which may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the company.

Generally accepted accounting principles require that, where practicable, estimates be made with respect to the fair value of both on and off balance sheet financial instruments. The financial assets of the company are generally short-term floating rate loans receivable of a trade nature. At December 31, 1999, the fair value of loans receivable exceeded their book value by Cdn\$1 million (1998 – Cdn\$7 million). The fair value of mortgages and loans payable is determined by references to current market rates for debt with similar terms and risks. As at December 31, 1999, the fair value of mortgages and loans payable is below the book value of these obligations by Cdn\$281 million (1998 – exceeded its book value by Cdn\$108 million).

The company may be required in 2003 to purchase certain assets from a third party at a fixed price of Cdn\$101 million, at their option.

In June 1998, the company acquired the remaining 30% interest in Brookfield Management from a related company. This position was acquired on normal market terms for US\$11.9 million and was recorded at exchange value. Included in commercial property debt is Cdn\$378 million (1998 – Cdn\$369 million) of mortgage financing held by related parties, and during 1998 financial assets of Cdn\$71 million were sold to an affiliate on normal market terms and were recorded at exchange value.

*(b) Weighted Average Shares Outstanding*

The basic weighted average number of shares outstanding was 133.0 million (1998 – 132.8 million).

*(c) Comparative Figures*

Certain comparative figures have been reclassified to conform with the current year's presentation.

*(d) Uncertainty Due to the Year 2000 Issue*

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the year 2000 issue that may affect the company, including those related to customers, suppliers, or other third parties, have been fully resolved.

## DIRECTORS

**Gordon E. Arnell**

*Calgary, Alberta*

Chairman

Brookfield Properties Corporation

**Jean A. Beliveau, O.C.<sup>(2)</sup>**

*Montreal, Quebec*

President

Jean Beliveau Inc.

**William T. Cahill**

*Ridgefield, Connecticut*

Managing Director

Citicorp Real Estate, Inc.

**Ian G. Cockwell**

*Oakville, Ontario*

Chairman

Brookfield Homes Ltd.

**Jack L. Cockwell<sup>(2)</sup>**

*Toronto, Ontario*

President and Chief Executive Officer

EdperBrascan Corporation

**Robert A. Ferchat<sup>(2)</sup>**

*Mississauga, Ontario*

Corporate Director

**J. Bruce Flatt**

*Toronto, Ontario*

President and Chief Executive Officer

Brookfield Properties Corporation

**Roger N. Garon<sup>(2)</sup>**

*Montreal, Quebec*

Chairman

Multi-Vet Ltd.

**Robert J. Harding<sup>(2)(3)</sup>**

*Toronto, Ontario*

Chairman

EdperBrascan Corporation

**David A. Lewis<sup>(1)(2)</sup>**

*Toronto, Ontario*

Corporate Director

**John R. McCaig, O.C.<sup>(3)</sup>**

*Calgary, Alberta*

Chairman

Trimac Corporation

**Paul D. McFarlane<sup>(1)</sup>**

*Toronto, Ontario*

Senior Vice President

Canadian Imperial Bank of Commerce

**Allan S. Olson<sup>(1)(3)</sup>**

*Edmonton, Alberta*

President

First Industries Corporation

**Sam Pollock, O.C.<sup>(1)(3)</sup>**

*Toronto, Ontario*

Vice Chairman

Brookfield Properties Corporation

**John E. Zuccotti**

*New York, New York*

Chairman

Brookfield Financial Properties Inc.

*Membership of Board Committees:*

*(1) Audit Committee*

*(2) Human Resources Committee*

*(3) Governance and Nominating Committee*

## CORPORATE GOVERNANCE

A full statement of Brookfield's corporate governance practices, including the mandate of the board and its committees, can be found in the Management Proxy Circular dated February 25, 2000.

## CORPORATE

Gordon E. Arnell  
*Chairman*

Ian G. Cockwell  
*Deputy Chairman, Land and Housing*

John E. Zuccotti  
*Deputy Chairman, Commercial Properties*

J. Bruce Flatt  
*President and Chief Executive Officer*

Steven J. Douglas  
*Senior Vice President and Chief Financial Officer*

John D. Kennedy  
*Vice President, Finance*

P. Keith Hyde  
*Vice President, Taxation*

Katherine C. Vyse  
*Vice President, Investor Relations and Communications*

## SERVICE BUSINESSES

William J. Pringle  
*Managing Director*

John W. Campbell  
*Managing Director, Operations*

Roman J. Kruczaj  
*Managing Director, Investments*

John M. Oakes  
*President, Residential Services Inc.*

David H. Glass  
*President, Brookfield LePage Johnson Controls*

Gordon I. Hicks  
*Executive Vice President, Business Development*

Leslie J. Fullerton  
*Director, National Accounts*

Dan N. Savelli  
*Director, Finance*

## PROPERTY OPERATIONS

### United States

John E. Zuccotti  
*Chairman, Brookfield Financial Properties*

Richard B. Clark  
*President and Chief Executive Officer*

Edward F. Beisner  
*Senior Vice President and Controllor*

Lawrence F. Graham  
*Senior Vice President, Operations and Development*

Jeremiah B. Larkin  
*Senior Vice President, Leasing*

Kathleen G. Kane  
*Senior Vice President and General Counsel*

Harold R. Brandt  
*President, Midwest Region U.S.*

Tracy W. Wilkes  
*President, Mountain Region U.S.*

### Canada

David D. Arthur  
*President and Chief Executive Officer*

John W. Campbell  
*President, Brookfield Management*

Thomas F. Farley  
*President, Western Canada Region*

Julian P. Aziz  
*Senior Vice President, Office*

Mauro Pambianchi  
*Senior Vice President, Retail*

Brian C. Collyer  
*Senior Vice President, Business Development*

Kieran F. Mulroy  
*Senior Vice President and General Counsel*

Karen H. Weaver  
*Senior Vice President and Chief Financial Officer*

Michael K. Amos  
*Vice President, Human Resources*

Gordon E. Widdes  
*Vice President, Information Systems*

Michael Zessner  
*Vice President and General Counsel*

## LAND AND HOUSING

Ian G. Cockwell  
*Chairman and Chief Executive Officer*  
Brookfield Homes

Paul G. Kerrigan  
*Vice President and Chief Financial Officer*

### West Coast Region

William J. Pringle  
*President and Chief Executive Officer*

Jeffrey J. Prostor  
*President, Southland Area*

John J. Ryan  
*President, San Francisco Bay Area*

Stephen P. Doyle  
*President, San Diego Area*

Richard T. Whitney  
*Senior Vice President, Finance*

### East Coast Region

Peter E. Nesbitt  
*President and Chief Executive Officer*

Robert C. Hubbell  
*President, Virginia Area*

Albert C. Piazza  
*President, Florida Area*

David B. Adler  
*President, Adler Partnership*

### Mountain Region

Alan Norris  
*President and Chief Executive Officer*

R. Brian Hodgson  
*Executive Vice President and Chief Operating Officer*

Douglas W. Kelly  
*Senior Vice President, Edmonton*

Thomas P. Morton  
*Vice President, Denver*

David C. Harvie  
*Senior Vice President*

John Olson  
*Senior Vice President, Housing*

# FOUR-YEAR REVIEW

<i>December 31 (Millions, except per share and land and housing information)</i>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>Financial Results</b>				
Revenues	\$ 1,826	\$ 1,593	\$ 1,087	\$ 626
Cashflow from operations	259	197	116	23
Net income	153	129	76	5
Total assets	8,134	7,658	6,395	4,689
Capital base	2,651	2,362	2,294	735
<b>Per Fully Diluted Common Share</b>				
Common shares outstanding	132.7	133.1	132.8	74.4
Fully diluted shares outstanding	160.3	160.4	155.7	95.1
Cashflow from operations	\$ 1.51	\$ 1.13	\$ 0.83	\$ 0.03
Net income	0.85	0.70	0.48	(0.29)
Dividends paid	0.21	0.16	0.07	—
Shareholders' equity – book value	10.86	9.69	9.73	5.99
Common share price at year end	10.50	12.09	16.68	8.64
<b>Operating Data</b>				
Commercial properties				
Number of properties	46	50	55	40
Leaseable area ( <i>Millions sq. ft.</i> )				
Total	33.3	34.4	32.1	25.8
Effective interest (before minority interest)	29.3	30.4	25.6	15.9
Average occupancy (%)	96	96	96	95
Property management				
Area managed ( <i>Millions sq. ft.</i> )	119.2	109.1	95.5	65.1
Land and housing				
Building lots				
Entitled lots	36,156	36,416	17,698	18,915
Unentitled lots	26,525	23,609	32,062	32,477
Total	62,681	60,025	49,760	51,392
Lot sales	5,563	4,461	4,658	3,537
Home sales	2,609	2,529	1,955	1,628

# CORPORATE INFORMATION

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## HEAD OFFICE

P.O. Box 770, Suite 4440  
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Web site: [www.brookfieldproperties.com](http://www.brookfieldproperties.com)

## STOCK EXCHANGES

New York, Toronto

## TICKER SYMBOL

Common Shares – BPO

Convertible Debentures – BPO.DB

## TRANSFER AGENT

CIBC Mellon Trust Company

P.O. Box 7010, Adelaide Street Postal Station

Toronto, Ontario

M5C 2W9

Tel: 416.643.5500 or 800.387.0825

(toll free throughout North America)

Fax: 416.643.5501

Web site: [www.cibcmellon.ca](http://www.cibcmellon.ca)

E-mail: [inquiries@cibcmellon.ca](mailto:inquiries@cibcmellon.ca)

## SHAREHOLDER INFORMATION – [www.brookfieldproperties.com](http://www.brookfieldproperties.com)

Shareholder questions relating to investor relations and financial results should be directed to Katherine Vyse, Vice President, Investor Relations and Communications at 416.369.2300 or via e-mail at [kvyse@brookfield.ca](mailto:kvyse@brookfield.ca). Shareholder questions relating to dividends, address changes and share certificates should be directed to the company's Transfer Agent.

## 2000 ANNUAL MEETING

The Annual Meeting of Shareholders will be held at The Exchange Tower, TSE Conference Centre, 2 First Canadian Place, 130 King Street West, Toronto, Ontario, at 10 a.m. on April 25, 2000.



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[www.e-finityproperties.com](http://www.e-finityproperties.com)

